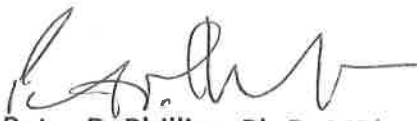


**SIXTH QUARTERLY REVIEW OF THE EXTENDED FUND FACILITY WITH THE  
INTERNATIONAL MONETARY FUND**

1. The matter for tabling in the Honourable House of Representatives is the Letter of Intent (LOI), and Supplementary Memorandum of Economic and Financial Policies (MEFP) submitted to the International Monetary Fund (IMF) within the context of the sixth quarterly review of Jamaica's performance under the Extended Fund Facility (EFF).
2. The IMF staff report, which was discussed by the IMF Board on December 19, 2014, confirmed that Jamaica had met all quantitative targets and structural benchmarks for the quarter ending September 30, 2014 and recommended completion of the sixth review. The IMF Board completed the sixth review as recommended, enabling the disbursement of US\$66.8m (SDR 45.95m) to the country. This brings the total disbursement under the EFF to US\$550.65 million (SDR 268.59m).
3. The IMF staff reported a gradual pick-up in economic activity, moderating inflation, on-track fiscal performance, stable financial market conditions, continued narrowing of the current account deficit and a sharp increase in the net international reserves arising from the Central Government's international capital market issue of US\$800m. The report also noted that risks to the programme remain high and identified revenue shortfalls, disruptions in external financing and inability to contain the public wage bill as potential risks.
4. Following IMF Board discussion of the review, Deputy Managing Director and Acting Chair of the IMF Board, Mr. Nayouki Shinohara, noted that:
  - wide-ranging actions to boost growth and employment are critical for success of the programme;
  - reforms to enhance the business climate should be accelerated;
  - further actions to strengthen public financial management are required; and
  - expeditious implementation of the plans for financial sector reform will improve the soundness of the financial system.
5. The Supplementary MEFP provides additional details on the near term structural benchmarks and commitments and incorporates minor adjustments to the programme conditionalities.



Peter D. Phillips, Ph.D, MP

Minister of Finance and Planning

January 12, 2015



## Appendix I. Letter of Intent

Kingston, Jamaica  
December 3, 2014

Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
Washington, DC 20431

Dear Ms. Lagarde,

Jamaica has continued the steadfast implementation of its Fund-supported economic reform programme aimed at overcoming the long-standing problems of low growth and high debt. All quantitative fiscal and monetary performance criteria under the programme have been met for all quarterly test dates. The Government has also implemented all of the structural benchmarks that were included in the programme, albeit with some minor delays.

The Government remains fully committed to meeting the objectives of the programme, as well as the specific targets set out in the June 2014 Memorandum of Economic and Financial Policies (MEFP) and its September 2014 supplement. Attachment 1 to this letter is a further supplement to the MEFP, presenting performance under the programme, and updating some specific policies to meet the programme's ultimate objectives, including the associated quantitative targets and structural benchmarks. Attachment 2 is the updated Technical Memorandum of Understanding.

On the basis of our performance under the programme thus far as well as our sincere commitment to the continued implementation of the programme, the Government requests that the Executive Board of the IMF complete the sixth review of the extended arrangement under the Extended Fund Facility, approve new performance criteria for September 2015 and approve the seventh purchase under the arrangement of SDR 45.95 million.

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 to complete programme reviews and monitor performance on a timely basis. 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.

As part of our communication policy, we intend to publish this letter on the websites of the Ministry of Finance and Planning and the Bank of Jamaica to keep domestic and international agents informed about our policy actions and intentions. In that regard, we authorize the Fund to publish this letter and its attachments as well as the associated staff report.

Very truly yours,

/s/

Peter D. Phillips,  
Minister of Finance and Planning  
Jamaica

/s/

Brian Wynter  
Governor, Bank of Jamaica  
Jamaica

## Attachment I. Memorandum of Economic and Financial Policies

### RECENT DEVELOPMENTS

1. **On September 24, 2014, the Fund's Executive Board completed the Fifth Review of the four-year extended arrangement under the EFF in support of Jamaica's economic reform programme.**
2. **Economic performance during the first year of the programme has been mixed, reflecting a challenging economic environment.**
  - **Economic Growth.** Real GDP is estimated to have increased by 1.8 percent in the first quarter of FY2014/15 (April to June 2014), supported by growth in agriculture, manufacturing, construction, and tourism.
  - **Inflation.** Consumer price inflation amounted to 8.2 percent (year-on-year) in October 2014, reflecting the residual impact of an earlier drought on agricultural production and the pass-through of nominal depreciation into domestic prices.
  - **Balance of Payments.** The current account deficit is estimated to have declined to 8.4 percent of GDP in 2013/14, supported by exchange rate depreciation and fiscal consolidation. Net international reserves (NIR) increased to US\$2.2 billion by end-September 2014, comfortably meeting the programme's NIR target. As of end-November, reserves amounted to US\$2.0 billion.
  - **Public Finances.** Fiscal performance in the first half of FY 2014/15 was broadly satisfactory. Tax revenues were above the September programme floor. Current and capital expenditures were also lower than projected, and both the central government primary balance and overall balance of the public sector exceeded the programme target.

### PERFORMANCE UNDER THE PROGRAMME

3. **Overall policy implementation under the programme remains strong and structural reforms are progressing.** All quantitative performance targets and indicative targets for end-September were met. Structural benchmarks due during July to September 2014 were also met. The e-census public service database is now up to date, covering all Ministries, Departments and Agencies, and is being validated and updated, and a Public Sector Transformation Plan was approved by Cabinet in September 2014. Parliament adopted amendments to the General Consumption Tax (GCT) Act, Tax Collection Act 2014 and Tax Penalties Act, also in September.

### POLICIES FOR 2014/15 AND BEYOND

4. **The Government remains fully committed to the reform strategy and the supporting policies outlined in the June 2014 MEFP.** Unless modified below, that strategy and those policies

remain valid in full. The quantitative targets that serve as performance criteria and indicative targets under the programme have been updated and extended through September 2015. These updated targets are presented in Table 1. The structural conditionality under the programme, incorporating several modifications discussed below, is presented in Table 2.

### **The 2015/16 Budget**

**5. The 2015/16 budget will be consistent with the objectives and targets of this programme, and will be submitted to parliament in time for its adoption before end-March 2015.** In particular, the budget will maintain the primary surplus of the central government at 7.5 percent of GDP. It will include a reduction in the size of the wage bill to 9.0 percent of GDP, consistent with the Fiscal Responsibility Framework. Reforms in tax administration and tax policy will be aimed at minimizing any loss of tax revenues in the face of an eroding tax base due to, for example, the wage bill reduction and import compression. A budget call for early and accurate budget envelopes and priorities was issued in September 2014 to strengthen budget preparation. The budget will include a comprehensive and clear fiscal risk statement, covering all significant contingent liabilities including those related to public sector entities and PPPs. Technical assistance (TA) is expected to be provided by the IDB, the World Bank and the IMF to support this effort. In this context, the total loan value of all new user-funded PPPs (excluding those confirmed by the Auditor General to involve only minimal fiscal contingent liabilities) is capped at 3 percent of GDP on a cumulative basis over the programme period (*continuous structural benchmark*).

### **Tax Reforms**

**6. Several elements of the extensive reform of the tax system that have already been presented require further action:**

- The Minimum Business Tax initially announced in FY2012/13 was implemented by way of a provisional order starting April 2014. Permanent legislation will be tabled by January 2015.
- A first phase in the amalgamation of statutory payroll deductions was completed by finalizing and gazetting the SO3 form in March 2014. Annual return SO4 form is to be completed by end-December 2014.

**7. Important follow-up initiatives are still needed as part of the tax reform.** In the context of the new tax incentives legislation, an expeditious transition by entities with grandfathered incentives to the new regime will be important for achieving the expected decline in tax expenditures. In this context, the Government will conduct an entity by entity review of all entities with grandfathered incentives and of their regime by end-FY2014/15 (*structural benchmark for January 2015*), to serve as a basis for discussion to facilitate transition to the new regime by mutual agreement between authorities and entities. TA by the IDB for this review is ongoing. Property tax reform is also envisaged to be ready for implementation by the start of FY2015/16, as discussed in the June 2014 MEFP. Looking beyond 2015/16, we will assess the need for a further reduction in tax expenditures, on the basis of revenue needs and an assessment of the degree to which the recent

reforms will result in a progressive decline in tax expenditures over time, as grandfathered incentives expire. The IDB has provided TA to support these assessments. A further exploration of options for additional broadening of the tax base, and their implications for growth, revenue and social objectives, would be helpful in guiding such further tax reform. We will invite the Fund and the IDB to offer assistance in preparing these reviews. Furthermore, and based on ongoing IDB TA, we plan to improve the reporting on tax expenditures and their estimated fiscal costs in the context of future budgets. Over the medium term, a convergence of personal and corporate income tax rates to a uniform standard headline rate is also envisaged, subject to available fiscal space and the attainment of revenue targets.

**8. Property tax reform is envisaged to be ready for implementation by the start of FY2015/16.** This will include amendments to the Property Tax Amendment Act, the Land Valuation Amendment Act, and the Tax Collection Amendment Act to provide for, among other things, the publication of names, valuation numbers, addresses and amounts outstanding of delinquent property owners in the Jamaica Gazette, daily news papers, broadcast media or a Government of Jamaica website, subject to court proceedings, as well as provisions to allow utilization of a wide array of media for the posting of Assessment Notices. Amendments to the Land Valuation Act will also provide for the interim adjustment of land values in periods of no more than two years, to take account of changes in economic conditions and/or change in the use of properties.

**9. Reforms to strengthen tax and customs administration are proceeding. Steps to improve tax and customs administration are guided by the revenue administration action plan prepared in collaboration with the IMF and IDB.** In particular, we have recently:

- Appointed a permanent Commissioner General to head Tax Administration Jamaica (TAJ), and a permanent Board has been put in place, to ensure strong leadership and governance. The new organizational structure has been approved and the appointment of deputies has been completed.
- Enacted legislation to strengthen the powers of TAJ and Jamaica Customs Agency (JCA) to collect outstanding arrears. Amendments (including powers to seize and sell taxpayers' property, harmonization of penalties and fines where appropriate and the introduction of mandatory income tax filing for every business) were adopted by Parliament in September 2014.
- Enacted amendments to the Customs Act to facilitate implementation of ASYCUDA World and trade facilitation (September 2014).
- Set up a modernization programme office in the TAJ, with a manager and key staff already in function.
- Tabled legislation related to the establishment of the Revenue Appeals Department as a separate, independent entity, with IFC support.

**10. Next steps to strengthen tax and customs administration include:**

- Full implementation of the elimination of applying the GCT for government purchases by March 2015 (except for purchases by public schools).
- Improving the regime for making tax payments, with lower bank charges, by February 2015, with the World Bank assisting the TAJ
- Seeking to increase the number of banks that accept the use of Real Time Gross Settlement (RTGS) as an alternative channel for the payment of duties and taxes on commercial imports; discussions with banks are ongoing.
- Improving large taxpayer administration through: (i) increasing the number of staff in the large taxpayers office (LTO) by a further 30 auditors (from March 2014 to March 2015); (ii) increasing the number of (full plus issue) audits completed in the LTO by 100 percent (from FY 2013/14 to FY 2014/15); (iii) achieving 95 percent take up rate of e-filing and e-payment in the LTO (March 2015) and (iv) writing off all GCT and SCT debts that have been subjected to risk-rated stress tests and consequently categorised as uncollectible in accordance with the Regulations (*revised structural benchmark, March 2015*). We aim to similarly write off income tax debts that have been subjected to risk-rated stress tests and consequently categorised as uncollectible in accordance with the Regulations by end-2015. The number of LTO auditors will be increased by another 20 by September 2015.
- A comprehensive overhaul of the Customs Act will be tabled by June 2015 (*structural benchmark*).
- Automating tax and customs operations by implementing:
  - (i) ASYCUDA World for the Kingston Port as a pilot site (*structural benchmark for December 2014*),
  - (ii) Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package (*structural benchmark for February 2015*),
  - (iii) ASYCUDA-World integrated customs software package for the entire country (March 2016), and
  - (iv) GENTAX integrated tax software package for all major tax types; the stamp duty and transfer tax will be added if possible (April 2016).
- Preparing (with IMF TA support) an estimate of the revenue compliance gap for the GCT by February 2015, to provide a basis for measuring the impact of administrative reforms.
- Implementing new revenue productivity indicators that measure the effectiveness and the efficiency of the tax system (*structural benchmark for November 2015*), building on TA provided by the Fund. The indicators should cover compliance gaps for all major taxes, as well as e-filing,



non-filing, audit coverage, objection, and appeals results, arrears collection, collectible and disputed debts, refund processing, and customs clearance and customs post-clearance audits.

### **Reforms to Public Financial Management and the Budget Process**

**11. The government is prioritizing reforms that are needed to underpin the new fiscal rule adopted by Parliament in March 2014.** The March 2014 MEFP supplement described the rule in detail. The classification rules for determining which entities would be deemed commercial and, on that basis, could be excluded from the coverage of the fiscal rule have now been completed, and the associated regulations and a sensitization programme are under preparation. Next steps to ensure effective implementation of the fiscal rule were listed in full in the June 2014 MEFP and its September 2014 supplement. These include bolstering capacity within the Auditor General's office, and a database of PSIP projects will be completed in December 2014. An improved Public Investment Management System (PIMS), designed with World Bank support, will be supported by a high-level Public Investment Management Committee that has been approved by cabinet, and the creation of a web-based public investment management information system, Phase 1 of which became operational in July 2014. A PSIP policy paper was presented to Cabinet in September 2014.

**12. The government is implementing its updated action plan for public financial management reform, in collaboration with its development partners.** In this context:

- The macro-fiscal capacity of the Ministry of Finance and Planning (MOFP) will be strengthened with the support of IMF TA. An action plan was completed in September 2014, as described in the September 2014 MEFP supplement. On the basis of this plan, we will: (1) undertake hands-on training for the members of the Fiscal Policy Management Unit (FPMU); (2) review, re-organize and reclassify the functions and positions in the FPMU; (3) develop structured workplans for each position in the re-organized FPMU by the first quarter of FY 2015/16; (4) recruit additional qualified staff for the re-organized Unit by the second fiscal quarter of 2015; and (5) document procedures of methodology and processes for the efficient production of key outputs and effective management of datasets and information on an on-going basis. With the support of IMF TA, the FPMU commenced, in October 2014, hands-on training in macro-fiscal management, including a review of the revenue forecasting methodology, as well as the development of a comprehensive macro-fiscal data collection and management strategy.
- The Treasury Single Account (TSA) at the Bank of Jamaica will be further expanded and improved, including by the closure of imprest and various transit accounts by April 2015 (including clearing accounts for the payment of salaries), collection of gross revenue flows, and inclusion of extra budgetary funds, executive agencies and budget-financed public bodies in the TSA. The Government will further increase direct payments through the TSA using the central treasury management system (CTMS), including of civil servants salaries (by January 2015), and will strive to retain collections in the TSA till payments need to be made. With technical assistance of the Fund a plan for further expansion of the TSA will be developed by December 2014.

- We will review the need for a service level agreement between the BOJ and the government for banking services provided by the BOJ.
- CTMS coverage and functionality will continue to be expanded. A CTMS development strategy has been prepared.
- The Accountant General's Department (AGD) is the Treasurer of the single treasury account and the process for transitioning of the AGD into a modern treasury department by March 2016 commenced in April 2013 with a consultancy to develop a strategy to guide the transition. By December 2014, we aim to develop an AGD modernization plan, and to define a new organizational structure. In support of the modernization plan, an AGD Modernization Task Force including MOFP and AGD functional, HR, and IT expertise has recently been established.
- A new Cash Management Unit will be established in the AGD, and the cash management function (currently handled by FPMU) will be transferred to it by June 2015 (proposed structural benchmark), with the help of IMF TA (funded by the Canadian Department of Foreign Affairs, Trade and Development). Furthermore, a new cash forecasting model is expected to be developed by June 2015 and to become operational by September 2015.
- The adjusted Chart of Accounts was first prepared in April 2014 and is undergoing further revisions with a view of its implementation by June 2015.
- The GOJ will strengthen the efficiency and quality of the GOJ procurement process, thereby improving the ease of doing business and reducing costs. Next steps include:
  - Implementation of the Electronic Tendering System in four pilot entities during the financial year 2014/15.
  - Adoption and effectiveness of the Procurement Act tabled by July 2014, with a view to its passing and effectiveness by January 2015.
  - A new procurement manual will be prepared by March 2015, with IDB assistance.

## Debt Reduction

**13. The Government is committed to sharply reducing public debt, which is expected to decline to 96 percent of GDP by March 2020.** This is expected to be achieved by sustained fiscal efforts, policies to bolster growth, as well as additional market friendly measures. In designing and implementing these transactions, the Government will seek to ensure sound public sector governance. For the purpose of the IMF-supported reform programme, reporting on public debt includes government guaranteed debt and PetroCaribe debt (net of its financing to the central government and its holdings of guaranteed debt).

**14. The Government will further strengthen its debt management strategy.** The efficiency of the Debt Management Branch will be further strengthened through increased staffing of the

middle office, skills training and effecting improvements to securities operations. By January 2015, the BOJ and the MOFP will finalize a Fiscal Agency Agreement on debt management operations and the debt issuance process.

### **Public Sector Reform**

**15. The Government is committed to improving the efficiency, quality and cost effectiveness of the public sector.** We have developed an action plan for public sector transformation (*structural benchmark*), in close cooperation with our development partners.

- **Public sector transformation.** On the basis of our action plan we will: (i) put in place shared services within the central government starting with the legal services; a consultant is being retained who will complete a report for optimal shared service model, the structure and attendant service level agreements by March 2015. (ii) merge the Forensic Laboratory and the Legal Medicine Unit by completing the organisational structure by June 2015 and getting the new entity operational by September 2015, and (iii) complete the merger of the Betting Gaming and Lotteries and the Racing Commissions by April 2015.
- **Wages and salaries.** The Government has initiated discussions on a new wage agreement for the period after March 2015, to maintain a path of public sector wages consistent with firmly placing public debt on a downward path over the medium-term.
- **Public Sector Positions.** The GOJ will continue to reduce the size of the public sector over 2014–16 through the elimination of posts and an attrition programme. To ensure that the GOJ's overall wage ceiling of 9.0 percent of GDP by 2015/16 is met, the filling of vacant positions will be constrained as needed, guided subject to the need to preserve capacity in a limited number of priority areas.
- **The procurement of the human resources software system (the HCMES system; including Payroll)** is progressing and the vendors were sent the 2nd stage RFP on October 16th and are expected to respond by December 2nd. Given the delay in sending out the 2nd stage RFP the process to evaluate the bids and identify the preferred vendor will be completed by January 2015. Contract negotiation and agreement of the terms of the contract is expected to be completed by April 2015. To ensure a timely start to implementation of the system for the wider public sector, with IDB support, a dedicated project management team will be in place by November 30th 2014 with the project plan to be completed by April 2015. The start of the implementation of the HCMES/Payroll system for the first entity, subject to the Vendor, is now expected to start in April 2015. Implementation for the remaining five entities will commence by October 2015.
- A Chief Information Officer will be in place by end-January 2015, to support the e-government strategy.

**16. In the area of public bodies, further improvement is to be achieved.** The sector's overall balance is projected to be in balance for the remaining 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 fiscal year; this is to be achieved by end-2014 for self-financing public bodies (with the exception of PetroCaribe, and Petrojam) and by December 2015 for all other public bodies. Public Bodies that fail to meet this condition without reasonable cause will be sanctioned under Section 25 of the Public Bodies Management and Accountability Act. Monitoring of public bodies will be strengthened by (1) enforcing a time limit for submission of the relevant 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. In addition, by June 2015, a review will be undertaken to evaluate the scope for reintegrating some public bodies into the central government and setting others at a more arms-length distance from the central government with a governance framework aligned with international best practices.

### **FINANCIAL SECTOR REFORMS**

**17. We are taking steps to mitigate the risks inherent in Jamaica's highly interconnected financial system.**

- We will bring into effect by end-September 2015 (proposed structural benchmark) the Banking Services Act that was adopted in June 2014; the supporting regulations require parliamentary approval and will be tabled by end-July 2015.
- We are preparing plans to strengthen the regulatory and supervisory framework for non-bank financial institutions with long-term Fund technical assistance.
- Concurrent with the ongoing and intensified measures to achieve financial sector reform and in the context of Jamaica's highly interconnected financial sector, we are taking steps to strengthen the resolution framework and formally establish the national crisis management plan, consistent with international best practices. The BOJ and the FSC have put in place contingency plans, including financial backstops, and agency-specific crisis management frameworks. These steps will support a national plan and framework under the auspices of the FRC that we will finalize by end-December 2014; the MOF and the JDIC will put in place complementary plans and frameworks by end-January 2015. To support the foregoing, we will table any necessary legislative provisions by end-July 2015, for enactment by end-September 2015, building on anticipated IMF TA in January or February 2015, with a stakeholder consultation process scheduled to start by end-April 2015. By end-March 2015, we will also have ready for discussion a strategy paper to further strengthen depositor protection and investor compensation across financial institutions.
- We are preparing amendments to the BOJ Act in order to vest the BOJ with overall responsibility for financial stability. We will also prepare a comprehensive strategy paper to enhance BOJ governance and autonomy for discussion by end-February 2015; we will assess the need and scope for priority revisions to the BOJ Act, especially in the context of the Safeguards

Assessment. We will table any such priority legislative provisions by end-July 2015, together with the amendments concerning the BOJ's financial stability mandate, for enactment by end-September 2015.

- We would support the commencement of a Financial Sector Assessment Program (FSAP) Stability Module by end-2015.

**18. We are taking steps to make less risky business models available to securities dealers.**

- We raised the investment cap for CIS in foreign assets from 5 percent of assets to 7.5 percent effective July 1, 2014, as a first step towards raising the cap to at least 25 percent by end-2015. The second step (10 percent) is scheduled for January 2015. In January 2015 we will publish a timeline to migrate from 10 percent to at least 25 percent by end-December 2015. This cap will be removed altogether by end-2016, unless extraordinary circumstances require a reassessment.
- Furthermore, consultations are ongoing between the BOJ, representatives of regulated entities in the insurance and pensions sectors, and the FSC clarifying that current limits on permissible investments in foreign assets can be removed only at a later stage. The BOJ, in collaboration with the FSC, will prepare a paper for discussion with the industry by end-March 2015.
- The remaining tax obstacles to CIS, in particular those arising from the stamp duty and the transfer tax, were removed in July 2014 through a provisional order that will expire in December 2014; we will enact legislative provisions by end-December 2014 to remove these obstacles for a longer period to provide certainty and encourage the use of CISs.

**19. We are implementing measures to protect the interest of retail repo clients.**

- In consultation with Fund staff, we are establishing a distinct treatment for retail repo clients 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. This will entail establishing a Trust to hold the underlying securities on their behalf during the term of the retail repo.
- The legal and regulatory framework will comprise (1) the standardized legal documentation for the retail repo transactions, including a master retail repurchase agreement and trust deed; (2) reporting and other regulatory requirements for the securities dealers who are parties to retail repurchase agreements; (3) reporting and other regulatory requirements for the Jamaica Stock Exchange entities that will serve as custodian and trustee with respect to the trust arrangement; and (4) definitive legal treatment for the retail repo client interests in the event of a dealer's insolvency.
- The Trust arrangement is intended to ensure that funds and securities flow in accordance with the terms of the retail repo agreement, and the Trust will be responsible for the custody of the securities underlying retail repo transactions. It will also facilitate the taking of appropriate

actions in the event of a transaction failure or default. A key function of the Trust arrangement will be to ensure that the interests of each retail repo client in the underlying securities are clearly and uniquely identified for the increased protection of the clients, and also to ensure that such securities would be held apart from the dealer's estate in the event of its insolvency.

- We have finalized the transaction structure for the trust-based framework; and by end-December 2014 the legal and regulatory framework supporting this framework will be in effect (structural benchmark). The transition of retail repos to the trust-based framework will be finalized by end-June 2015 (proposed structural benchmark) taking into account evolving market conditions and ensuring financial stability. As interim steps, we will start a pilot by end-February 2015, and start the transition by mid-April 2015.
- We are taking steps to ensure the financial and operational readiness of the securities dealers to move to a trust-based framework, supported by joint focused stress tests by the BOJ and the FSC that we will continue to update.
- To enhance the breadth and quality of data ahead of the transition to the trust-based framework, the FSC will implement a revised set of securities dealer reporting and analysis templates by end-December 2014.

**20. Over the medium term, a gradual tightening of prudential standards in line with best international practice will facilitate fundamental reform of the securities dealers sector.** Our aim is to ensure that in the near to medium term the size of the retail repo business is reduced to a level deemed by the BOJ and the FSC to be systemically safe and prudentially manageable. As the first step, effective October 1, 2014, we established (i) an initial minimum transaction size for retail repos, and (ii) a timetable to gradually increase the minimum transaction size; by end-March 2015 we will assess whether we need to expedite this timetable and/or increase the ultimate minimum transaction size. By end-December 2014 we will (i) bring into effect a Prudential Regulation for the securities dealers, and (ii) adopt a strategy for the gradual tightening of prudential standards. By end-March 2015 we will start executing this strategy.

## **MONETARY AND EXCHANGE RATE POLICY**

**21. Monetary policy remains aimed at achieving single digit inflation within a flexible exchange rate regime.** For FY2014/15, the BOJ's forecast for inflation is in the range of 7 percent to 9 percent. Over the medium term, we envisage inflation to come down to a range of 6 percent to 8 percent, while over the longer term, the objective is to achieve a gradual reduction of inflation to a rate that is consistent with that of our main trading partners, in the context of a possible move to full-fledged inflation targeting. Starting 2015, the BoJ will conduct annual reviews to assess our readiness for inflation targeting. The first review will be conducted by March 2015.

**22. The BOJ will continue to respond to liquidity pressures in the financial system.** The BOJ has taken steps to rationalize the structure of its interest rates and provide liquidity with greater certainty including by removing the volume limit on its Standing Liquidity Facility. As a further step

towards establishing a comprehensive liquidity provision framework, the BoJ is intending to introduce auctions for periodic repo operations by early 2015, with the assistance of IMF TA scheduled for December 2014. Over the course of FY 2014/15, the BOJ will continue to refine its monetary policy operations in order to further increase certainty in its liquidity provision at a price consistent with its policy goals.

## **GROWTH ENHANCING REFORMS**

**23. We have set up a Sub-Committee of Cabinet to promote growth.** A secretariat has been established to coordinate with key stakeholders to ensure the effective implementation of the strategic projects and growth reform initiatives.

**24. Actions for improving the business climate are critical:**

- The Application Management and Data Automation system (AMANDA) will allow the Government to track approval of construction permits across all parish councils in Jamaica and is expected to be implemented with support from the World Bank. AMANDA has been implemented in all parishes ahead of schedule (*structural benchmark*). The Government will now focus on implementing the system in the commenting agencies to make it fully operational by June 2015. A Concept Paper has been developed to revise and standardize the fee structure for application fees.
- We have started implementing a programme of reforms to be implemented for the improvement to the Development Applications Process (DAP), including provisions to fast-track lower-risk and smaller projects. A Memorandum of Understanding between the Local Planning Authorities (LPAs) and the National Environment and Planning Agency (NEPA) will be effected to facilitate this Joint Technical Team for the review, assessment and monitoring of development applications. Applications for projects above certain thresholds would be handled by the established joint technical team, which would include NEPA, National Works Agency and the relevant parish councils, while smaller projects would be handled by the parish councils, with clarity on the expected maximum timeframes. The improvements to the DAP will enable the facilitation of developers' submissions of preliminary, outline or detailed applications to the relevant LPAs. Outline approvals can be given, subject to the reserved matters. Reserved matters include other detailed planning requirements, such as parking, drainage, setbacks etc. The programme of reforms for the new process was submitted to Cabinet in October 2014. The new process will be in place by the end of 2014 and result in a faster, more streamlined approvals process.
- Under the Land Administration and Management Programme (LAMP) another 1,000 new titles are expected to be issued during 2014/2015. LAMP will be extending its services to clients in St. Ann, Westmoreland, St. James, Trelawny and Hanover.
- The new Insolvency Act was adopted by Parliament in October 2014. The law will be effective as of end-December 2014. Training and PR will be supported by the World Bank.

- An on-line system for business registration will be in place by end-June 2015, with IDB support. By then, the turnaround time for applications will be reduced further to two business days.
- Urgent actions will be taken to reduce the time needed for entrepreneurs to get an electricity connection. Plans foresee the automation of the work processes within the Government Electricity Inspectorate (GEI) and the acquisition of ICT to streamline procedures for scheduling, inspecting, approving and certifying electrical installations. The contract signature for the acquisition of the application is expected by end-March 2015 and its adoption is expected to be completed by April 2016, with IDB support.
- Plans to establish a Port Community System (PCS) to electronically integrate and streamline export and import procedures are underway. With the Jamaica Customs acquisition of ASYCUDA World Customs Management System, an independent assessment of both the PCS and ASYCUDA World systems was completed in September 2014 and will inform the next critical steps. In particular, those functions of the PCS that cannot be offered through ASYCUDA will be pursued by the private sector, possibly under a management contract. The systems will ultimately be integrated.
- A Special Economic Zone (SEZ) Act is expected to be passed by October 2015 that will ensure compatibility with WTO requirements. A White Paper is planned to be issued in February 2015. Drafting of the new SEZ Act (and its enabling regulations) will commence immediately thereafter.

**25. Strategic investments to establish Jamaica as a logistics hub are well underway.** Work is proceeding on the privatization of both Norman Manley International Airport (NMIA) and the Kingston Container Terminal. For NMIA, a rate review has now been completed, and the RFP is to be issued in November 2014, with the selection of a preferred bidder expected by June 2015. In the case of the Kingston Container Terminal, a negotiating team has started discussions with the provisional preferred bidder. Work is proceeding on the Caymanas SEZ. The tender for the feasibility study will be at market in January 2015. Regarding the development of a transshipment port and industrial and commercial zones in the Portland Bight area by China Harbour Engineering Company (CHEC), a final Framework Agreement was signed in August 2014. CHEC has commenced the technical feasibility study. This is a prerequisite for determining the construction methodology and for obtaining the terms of reference from NEPA for the Environmental Impact Assessment. The project will be executed in phases with the first phase projected to be completed in the last quarter of 2016. Negotiations leading to execution of the Definitive Agreements are expected to commence shortly.

**26. Reducing the cost of electricity is critical to improve competitiveness.** Several projects and initiatives to achieve fuel-source diversification, facilitate energy conservation, liberalize the electricity market and reduce the cost of energy are moving ahead. The Electricity Sector Enterprise Team (ESET) has prepared an action plan for creating a viable model for the sector, and to manage the procurement process for additional generation capacity. The plan foresees replacing current (oil-fired) generation capacity with gas, coal and ethane-fired plants, to achieve significant cost savings.



The ESET aims to initiate the execution of these plans in 2015, with the conversion of the Bogue power station from oil to gas. It has also provided guidance to update the Electricity Act, to clarify and codify the roles and responsibilities of the main actors in the sector, including the Government, the regulator, the utilities and the independent power producers. These amendments are expected to be submitted to Parliament by January 2015 (*structural benchmark*), after which they will become effective by end-March 2015. We are also preparing a plan to ensure that all public entities (central government, local government, and public bodies) meet their financial obligations in a timely manner.

**27. Labour market reforms are progressing.** Legislation supporting flexible work arrangements was adopted by Parliament in November 2014 and is in effect, and a public education campaign to promote the use of flexible work arrangements is underway. In the context of the recently launched Comprehensive Labour Market Reform Agenda, a Labour Market Reform Commission will be operational by March 2015 to review existing policies and practices in the areas of education and training; productivity, technology and innovation; labour policies and legislation; social protection; and industrial relations. Options to reduce the impact of high separation costs are being reviewed by the Unemployment Insurance Committee, and decisions are to be supported by two IDB-supported consultancies on Unemployment Insurance. A Cabinet note regarding options for reducing high separation costs will be submitted by March 2015.

## **REFORM OF SOCIAL SPENDING**

**28. Efforts to strengthen the social protection framework are progressing.** In May the government adopted a graduation strategy for PATH households. A communication strategy has been prepared, and broad implementation of the strategy is anticipated in early to mid-2015. The government launched a new social protection strategy in July, and a monitoring and evaluation framework is now being developed.

Table 1. Jamaica: Quantitative Performance Criteria 1/2/13/  
(In billions of Jamaican dollars)

	2013		2014			2015		
	End-Dec.	Stock	End-Sep.	End-Sep.	End-Mar.	End-Jun.	End-Sep.	
			Prog.	Adjusted	Actual	PC	Proposed PC	
<b>Fiscal targets</b>								
1. Primary balance of the central government (floor) 4/	...		37.8		43.6	121.0	17.0	32.0
2. Tax Revenues (floor) 4/5/	...		166.0		169.0	384.0	88.0	175.0
3. Overall balance of the public sector (floor) 4/	...		-30.2	-33.7	-23.1	-11.6	-17.0	-25.0
4. Central government direct debt (ceiling) 4/5/	1672.0		108.1		99.9	90.6	4.5	0.0
5. Central government guaranteed debt (ceiling) 4/	...		2.7		1.1	-1.8	2.0	2.0
6. Central government accumulation of domestic arrears (ceiling) 6/12/13/	21.6		0.0		-0.2	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 7/12/13/	24.6		0.0		-0.9	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 6/12/	...		0.0		0.0	0.0	0.0	0.0
9. Social spending (floor) 9/10/	...		8.9		12.3	21.7	4.5	9.5
<b>Monetary targets</b>								
10. Cumulative change in net international reserves (floor) 8/11/	1045.1		258.6	134.0	1159.3	529.4	470.3	469.2
11. Cumulative change in net domestic assets (ceiling) 11/	-7.5		-24.7	-11.4	-130.7	-55.1	-45.7	-44.0

1/ Targets as defined in the Technical Memorandum of Understanding.

2/ Including proposed modified performance criteria for the net international reserves and the net domestic assets.

3/ Based on program exchange rates defined in the March 2014 TMU.

4/ Cumulative flows from April 1 through March 31.

5/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.

6/ Includes debt payments, supplies and other committed spending as per contractual obligations.

7/ Includes tax refund arrears as stipulated by law.

8/ In millions of U.S. dollars.

9/ Indicative target.

10/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.

11/ Cumulative change from end-December 2013.

12/ Continuous performance criterion.

13/ This accumulation is measured as the change in the stock of arrears relative to the stock at end-March 2013. The latter stock is listed in the column for the stock at end-December 2013.

Table 2. Jamaica: Structural Program Conditionality		
Measures	Status/Timing	
Structural Benchmarks	Timing	Implementation status
<b>Institutional fiscal reforms</b>		
1. Revise the relevant legislation for the adoption of a fiscal rule to ensure a sustainable budgetary balance, to be incorporated in the annual budgets starting with the 2014/15 budget.	March 31, 2014	Met
2. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform.	March 31, 2014	Met
3. Government to ensure there is: (i) no financing of Clarendon Alumina Production (CAP) by the government or any public body, including Petro Caribe; and (ii) no new government guarantee for CAP or use of public assets (other than shares in CAP and assets owned by CAP) as collateral for third-party financing of CAP.	Continuous	Met
4. Government to table in parliament a budget for 2014/15 consistent with the program.	April 30, 2014	Met
5. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17, Country Report No. 13/378).	April 30, 2014	Met
6. Cap the total loan value of all new user-funded PPPs at 3 percent of GDP on a cumulative basis over the program period.	Continuous	Met
7. Ensure that the public service database e-census is up to date and covers all Ministries, Departments and Agencies.	September 10, 2014	Met
8. Develop an action plan for public sector transformation to cover the following areas: (1) the introduction of shared corporate services, (2) the reallocation, merger, abolition and divestment/privatization of departments and agencies, (3) outsourcing of services, (4) strengthening control systems and accountability (including in auditing and procurement), and (5) aligning remuneration with job requirements.	September 30, 2014	Met
9. Government to table changes in legislation for the new public sector pension system expected to be implemented by April 2016 (MEFP paragraph 25, Country Report No. 14/169).	June 30, 2015	
10. Government to establish a new Cash Management Unit in the Accountant General Department (AGD) and transfer to it the cash management function currently handled by the Fiscal Policy Management Unit (FPMU).	June 30, 2015	Proposed
<b>Tax Reform</b>		
11. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as stipulated in the TMU.	Continuous	Met
12. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (paragraphs 6, 7, 8, and 9 of the MEFP for Country Report 13/378) and as stipulated in par. 13 of the March 2014 MEFP.	March 31, 2014	Met
13. Government to table in parliament amendments to the GCT as stipulated in paragraph 12 of the June 2014 MEFP.	June 30, 2014	Met
14. Government to conduct an entity by entity review of all grandfathered entities and of their specific tax incentives in the context of the new tax incentives legislation by end-2014/15.	January 31, 2015	
<b>Tax Administration</b>		
15. Government to make e-filing mandatory for LTO clients with respect to General Consumption Tax (GCT) and Corporate Income Tax (CIT).	March 31, 2014	Met
16. Government to implement ASYCUDA World for the Kingston Port as a pilot site.	December 31, 2014	
17. Government to: (i) increase the number of staff in the large taxpayers office (LTO) by a further 30 auditors (from March 2014 to March 2015); (ii) increase the number of (full plus issue) audits completed in the LTO by 100 percent (from FY 2013/14 to FY 2014/15); (iii) achieve 95 percent take up rate of e-filing and e-payment in the LTO; (iv) write-off all GCT and SCT debts that have been subjected to risk-rated stress tests and consequently categorized as uncollectible according to the Regulations.	March 31, 2015	Proposed revision
18. Government to implement Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package.	February 28, 2015	
19. Government to table in Parliament proposals for a comprehensive overhaul of the Customs Act.	June 30, 2015	
20. Government to introduce new productivity indicators, in consultation with Fund staff, to measure the effectiveness and efficiency of the tax system.	November 30, 2015	

Table 2 (Continued). Jamaica: Structural Program Conditionality

<b>Financial sector</b>		
21. Government to table legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	Met
22. Government to submit proposals for a distinct treatment for retail repo client interests in the legal and regulatory framework to the relevant financial industry for consultation (MEFP March 2014 Paragraph 25) in consultation with Fund staff.	March 31, 2014	Met
23. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (June 2014 MEFP Paragraph 29) in consultation with Fund staff.	December 30, 2014	
24. Government to table the Omnibus Banking Law <sup>1/</sup> consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	Met 2/
25. Government to finalize the transition of retail repos to the trust-based framework.	June 30, 2015	Proposed
26. Government to fully implement the Banking Services Act.	September 30, 2015	Proposed
<b>Growth enhancing structural reforms</b>		
27. Government to implement a new (AMANDA) tracking system to track approval of construction permits across all parish councils.	December 30, 2014	Met
28. Government to table in parliament the Electricity Act.	January 31, 2015	Revision
1/ Currently referred to as the Banking Services Act.		
2/ The law was tabled in March 2014 with subsequent fine-tuning in collaboration with Fund staff prior to its adoption in June.		

## Attachment II. 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 programme supported by the extended 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 continuous structural benchmark concerning discretionary tax waivers.

**For programme purposes, all foreign currency-related assets, liabilities and flows will be evaluated at “programme exchange rates” as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates.** The updated programme exchange rates are those that prevailed on December 31, 2013. Accordingly, the exchange rates for the purposes of the programme are show in Table 1.

Jamaican dollar to the US dollar	106.38
Jamaican dollar to the SDR	163.83
Jamaican dollar to the euro	139.97
Jamaican dollar to the Canadian dollar	99.72
Jamaican dollar to the British pound	175.84
1/ Average daily selling rates at the end of December 2013	

### I. 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.**

#### 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.

**30. 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.**

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

#### **A. Cumulative Floor on Overall Balance of the Public Sector**

**32. 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.

**33.** Public bodies consist of all self-financed public bodies, including the 17 "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); National Road Operating and Constructing Company Ltd. (NROCC); Petro-Ethanol; Clarendon Aluminum Production (CAP); "Other Public Bodies" include: 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; 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.

**34. 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.

**35. 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.**

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

**37. Adjuster:** The floor for the overall public sector balance (cumulative since the beginning of the fiscal year) will be adjusted downward (upward) by an amount equivalent to the shortfall (excess) of PetroJam's overall balance (relative to baseline projections in Table 2), with the value of the adjustment at the end of any quarter capped at J\$3.5 billion.

Table 2. Overall Balance of Petrojam (Baseline Projection)	
In billions of Jamaican dollars	
End-September 2014	-3.7
End-December 2014	-2.0
End-March 2015	-3.8
End-June 2015	2.5
End-September 2015	[1.5]

## B. Ceiling on the Stock of Central Government Direct Debt

**38. 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.

- 39.** 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.
- 40.** Reporting: Data will be provided to the Fund with a lag of no more than four weeks after the test date.
- 41.** 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.

### **C. Ceiling on Net Increase in Central Government Guaranteed Debt**

- 42.** 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.
- 43.** The cumulative net increase in central government guaranteed debt will be monitored on a continuous basis.
- 44.** Reporting: Data will be provided to the Fund with a lag of no more than four weeks after the test date.
- 45.** 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.

### **D. Ceiling on Central Government Accumulation of Domestic Arrears**

- 46.** 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. This accumulation is measured as the change in the stock of domestic arrears relative to the stock at end-March 2013, which stood at J\$21.6 billion.



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

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

## **E. Non-Accumulation of External Debt Payments Arrears**

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

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

**51.** Definitions: The term "debt" <sup>1</sup> 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.

**52.** 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.

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

**53.** 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.

**54.** 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.

**55.** 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 MoFP. Data on external arrears will be reconciled with the relevant creditors and any necessary adjustments will be incorporated in these targets as they occur.

**56.** This performance criterion does not cover arrears on trade credits.

**57.** The performance criterion will apply on a continuous basis.

**58. Reporting:** The MoFP 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.

## **F. Ceiling on Central Government Accumulation of Tax Refund Arrears**

**59. 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. This accumulation is measured as the change in the stock of tax refund arrears relative to the stock at end-March 2013, which stood at J\$24.6 billion.

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

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

## **G. Floor on the Cumulative Change in Net International Reserves**

**62. 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.

**63.** Gross foreign liabilities of the BOJ 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. In deriving NIR, credit outstanding from the Fund is subtracted from foreign assets of the BOJ regardless of its maturity.

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

**65. 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 3. 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 be adjusted upward (downward) by the surplus (shortfall) in disbursements of budget support grants relative to the baseline projection reported in Table 3. NIR targets will also be adjusted upward (downward) by the surplus (shortfall) in IMF budget support purchases relative to the baseline projection reported in Table 3.

Table 3. External Program Disbursements (baseline projection)	
Cumulative flows from the beginning of the fiscal year	(In millions of US\$)
<b>External loans from multilateral sources</b>	
End-September 2014	41
End-December 2014	62
End-March 2015	176
End-June 2015	114
End-September 2015	167
<b>Budget support grants</b>	
End-September 2014	15
End-December 2014	41
End-March 2015	43
End-June 2015	1
End-September 2015	13
<b>IMF budget support disbursements</b>	
End-September 2014	70.77
End-December 2014	141.54
End-March 2015	141.54
End-June 2015	0
End-September 2015	0

The NIR target will be adjusted upwards (downwards) by the amount by which, at a test date, the cumulative changes from end-December 2013 in BOJ's foreign exchange liabilities to residents with a maturity of less than one year (including banks' foreign currency deposits in BOJ) are higher (lower) than the baseline projection for this change reported in Table 4.

Table 4. Reserve Liabilities Items for NIR Target Purposes	
	(In millions of US\$) 1/
<b>BOJ's foreign liabilities to residents</b>	
Outstanding stock	
End-December 2013	282.7
Cumulative change from end-December 2013	
End-September 2014	44.9
End-December 2014	51.6
End-March 2015	62.7
End-June 2015	67.3
End-September 2015	67.3
1/ Converted at the programme exchange rates.	

## H. Ceiling on the Cumulative Change in Net Domestic Assets of the Bank of Jamaica

**66. Definition:** The Bank of Jamaica's net domestic assets (NDA) are defined as the difference between the monetary base and NIR, converted into Jamaican dollars at the programme exchange rate. 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.

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

**Adjusters:** The NDA target will be adjusted downward (upward) for the surplus (shortfall) in programme loan disbursements from multilateral institutions (the IBRD, IDB and CDB) relative to the baseline projection reported in Table 3, converted into Jamaican dollars at the programme exchange rate. The NDA target will be adjusted downward (upward) for the surplus (shortfall) in disbursements of budget support grants relative to the baseline projection reported in Table 3, converted into Jamaican dollars at the programme exchange rate. The NDA target will also be adjusted downward (upward) for the surplus (shortfall) in IMF budget support purchases relative to the baseline projection reported in Table 3, converted into Jamaican dollars at the programme exchange rate. The NDA target will be adjusted downwards (upwards) by the amount by which, at a test date, the cumulative changes from end-December 2013 in BOJ's foreign exchange liabilities to residents with a maturity of less than one year (including banks' foreign currency deposits in BOJ) are higher (lower) than the baseline projection for this change reported in Table 4, converted into Jamaican dollars at the programme exchange rate.

## II. QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

### A. Cumulative Floor on Central Government Tax Revenues

**68. 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).

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

### B. Floor on Central Government Social Spending

**70. Definition:** Social spending is computed as the sum of central government spending on social protection programmes 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.

**71. In particular, this target comprises spending on specific capital and recurrent programmes.** On capital expenditure the following specific programmes must be included in 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.*

**72. On recurrent expenditure, the following specific programmes must be included in the floor on social expenditure:**

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

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

### **III. CONDITIONALITY ON TAX WAIVER REFORM**

**74. Under the continuous structural benchmark regarding the application of discretionary tax waivers, the granting of new discretionary waivers is subject to a *de minimis* cap' of J\$10 million in any month.**

**75. For the purpose of this condition, 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.**

**76. The amounts covered under the cap would exclude tax measures related to international treaties not yet ratified and provisions for CARICOM suspensions which are binding international legal obligations.**

#### **IV. CONDITIONALITY ON USER-FUNDED PPPS**

**77. Under the continuous structural benchmark regarding the total loan value of all new user-funded PPPs, the total value of all such loans contracted after May 1, 2013 will be capped at 3 percent of GDP on a cumulative basis over the programme period.** At end-June 2014, the total loan value of existing user-funded PPPs contracted after May 1, 2013 was zero.

**78. For the purpose of this condition, the loan value of a PPP may be excluded if the Office of the Auditor General has established that the PPP involves only minimal contingent liabilities (by demonstrating that the project has no debt guarantee, demand or price guarantees or termination clauses that could imply a transfer of liabilities to the government).**

**79. For the purpose of this condition, the applicable GDP is the projected nominal GDP for the fiscal year published in the Fiscal Policy Paper tabled in parliament ahead of the adoption of the budget.** For FY2014/15, the projected nominal GDP used as a reference is J\$1,617 billion, as presented in Table 2E, Medium-Term Macroeconomic Profile, part II, Macroeconomic Framework, page 11.

#### **V. INFORMATION REQUIREMENTS**

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

##### **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.
- Liquidity assistance to institutions from the BOJ, by institution.
- Bank of Jamaica purchases and sales of foreign currency, by transaction type (surrenders, public sector entities facility and outright purchases or sales including interventions).

- Amounts offered, demanded and placed in Bank of Jamaica open market operations, including rates on offer for each tenor and amounts maturing for each tenor.
- Amounts offered, demanded and placed in government of Jamaica auctions and primary issues; including minimum maximum and average bid rates.
- Daily foreign currency government of Jamaica debt payments (domestic and external).

### Weekly

- Balance sheets of the core securities dealers (covering at least 70 percent of the market), 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.

### Monthly

- Central government operations including monthly cash flow to the end of the current fiscal year, 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.
- 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.



## JAMAICA

- Central government debt stock by currency, as at end month, 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.
- The maturity structure of Government debt (domestic and external). 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. Including Bank of Jamaica outstanding open market operations by currency and maturity and a detailed decomposition on Bank of Jamaica and commercial bank net claims on the central government, selected public bodies and other public bodies.<sup>2</sup> 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 core securities dealers 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.
- 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 liquidity ratios, within eight weeks of month end.
- Monthly balance sheet data of deposit taking institutions, as reported to the BOJ, within four weeks of month end.

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<sup>2</sup>Selected public bodies and other public bodies are defined as outlined in Section IV (B).

- Imports and exports of goods, in US\$ million within twelve weeks after month end. Tourism indicators within four weeks 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.
- The balance sheet of the PetroCaribe Development Fund with a lag of no more than six weeks after the closing of each month.
- 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.
- Data on the total loans value of all new user-funded PPPs, specifying the PPPs identified by the Office of the auditor General as involving only minimal contingent liabilities (including the absence of debt guarantees, demand or price guarantees or termination clauses that could imply a transfer of liabilities to the government).

## Quarterly

- Holdings of government bonds (J\$-denominated and US\$-denominated) by holder category. The reporting lag should not exceed four weeks after the closing of each month (this would not be applicable to external and non-financial institutional holdings of GOJ global bonds as this information is not available to GOJ).
- Use of the PetroCaribe Development Fund, including loan portfolio by debtor and allocation of the liquidity funds in reserve within six weeks after month end.
- The stock of public entities non-guaranteed debt.
- 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 profitability ratios (against regulatory minima) for DTI's and non-bank financial institutions within eight 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 Jam Clear@ CSD and FSC independent verification of daily reconciliations using data provided by Jam Clear@ CSD. Reports are due within four weeks of end quarter.

## **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.

