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Jamaica: 2004 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Jamaica

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2004 Article IV consultation with Jamaica, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 4, 2004, with the officials of Jamaica on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 19, 2004. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its August 4, 2004 discussion of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Jamaica.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

JAMAICA

Staff Report for the 2004 Article IV Consultation

Prepared by the Staff Representatives for the 2004 Consultation with Jamaica

Approved by Caroline Atkinson and Matthew Fisher

July 19, 2004

- **Discussions**: A staff team comprising Antônio Furtado (Head), Wendell Samuel, and Yan Sun (all WHD); Emanuele Baldacci (FAD); and Inutu Lukonga (PDR) held discussions in Kingston during May 25–June 4. The mission met with Finance Minister Omar Davies, Bank of Jamaica Governor Derick Latibeaudiere, Financial Secretary Shirley Tyndall, other senior officials, opposition leader Edward Seaga, and representatives of labor and the private sector. Mr. Ian Bennett, Mr. Richard Campbell, and Ms. Emma Cunningham (OED) attended the policy discussions

- **Intensified surveillance**: The authorities have requested intensified surveillance of the medium-term economic strategy they have formulated, which has not been negotiated with Fund staff. In this context, semi-annual interim staff reports are expected to be prepared for the information of the Executive Board between the annual Article IV consultations, the first of which following a mission that is scheduled to visit Jamaica next fall. During the discussions, the authorities were encouraged to publish the Article IV reports and the interim reports.

- **Political setting**: The People's National Party, led by Prime Minister Patterson, won a fourth consecutive term in office in October 2002, with a reduced but still comfortable majority. However, in municipal elections held in June 2003, the opposition Jamaica Labor Party won control of 12 of 14 municipal councils (it controlled none before). The authorities have been trying to forge a broad consensus on economic adjustment and reform policies through consultations with trade unions and the business community.

- **Last Article IV consultation**: At the Board discussion of June 9, 2003, Directors expressed concerns about the high levels of the fiscal deficit and public debt, and recommended a strong fiscal adjustment effort to reduce vulnerabilities associated with the large debt burden. Directors recommended greater flexibility in the management of the exchange rate, along with an acceleration of structural reforms.

- **Exchange system**: Jamaica has accepted the obligations of Article VIII. A multiple currency practice remains, which is subject to Fund jurisdiction under Article VIII. Relations with the Fund are detailed in Appendix I (and those with other IFIs in Appendices III–V).

Contents

Page

Executive Summary 3

I. Background 4

II. Recent Developments 7

III. Report on the Discussions....9

A. Fiscal Policy Framework 11
B. Monetary and Exchange Rate Policy....14
C. Structural Reforms and Social Issues 15
D. Medium-Term Outlook....17
E. More Intensive Surveillance 18
F. Statistical Issues....18

IV. Staff Appraisal 18

Figures

1. Growth, Budget Balances, and Public Debt....5
2. NIR, Monetary and Exchange Rate Policy Response, and Inflation 6
3. Real Effective Exchange Rate and External Sector Developments....10

Tables

1. Selected Economic Indicators....22
2. Summary of Central Government Operations 23
3. Public Debt and Interest Payments 24
4. Summary Accounts of the Bank of Jamaica....25
5. Summary Monetary Survey 26
6. Selected Vulnerability Indicators....27
7. Summary Balance of Payments 28
8. Public Debt Sustainability Framework 29
9. External Debt Sustainability Framework....30
10. Millennium Development Goals....31

Appendices

1. Fund Relations 32
2. Statistical Issues 34
3. Financial Relations with the World Bank Group....37
4. Relations with the Inter-American Development Bank....39
5. Relations with the Caribbean Development Bank 41

EXECUTIVE SUMMARY

- **The authorities succeeded over the past year in stabilizing the economy and improving market confidence, despite Jamaica's extraordinarily high public debt burden**. Following a near crisis in early 2003, the foreign exchange market stabilized, inflation decelerated, domestic interest rates declined, and growth improved, while Jamaica returned to the international capital market. Although the external environment was favorable, a key contributor to this outcome was the government's renewed fiscal adjustment effort. The primary budget surplus reached 11 percent of GDP, while the public debt ratio declined slightly, to 145 percent of GDP. Bank soundness indicators have remained favorable.

- **In the context of the authorities' request for intensified surveillance, the discussions centered on their strategy aimed at a gradual reduction in the debt ratio, through an ambitious and prolonged fiscal adjustment**. The authorities' fiscal strategy calls for reducing the fiscal deficit in FY 2004/05, balancing the budget in the next fiscal year, and maintaining small overall surpluses thereafter. These objectives are predicated on primary surpluses of about 14 percent of GDP over the medium term. The public debt would decline gradually to just above 100 percent of GDP by FY 2008/09.

- **While supporting the authorities' fiscal consolidation efforts, the mission underscored the need for structural reforms to mitigate implementation risks, reduce vulnerability to shocks, and in particular to promote higher growth**. As the staff's projections point to a gap of about 1½ percent of GDP relative to the authorities' balanced-budget target for FY 2005/06, the mission encouraged the government to move quickly to identify policies to close this potential gap. The mission welcomed the authorities' plans for a major tax reform and encouraged them to proceed with efforts to improve tax administration, rationalize government employment, and improve the public expenditure management system. The social safety net should be strengthened to mitigate the short-term social impact of the fiscal adjustment and related reforms.

- **The current level of the exchange rate appropriately reflects market forces**. While the authorities have not been intervening in the foreign exchange market, the exchange rate has remained quite stable, despite a substantial decline in domestic interest rates. The mission supported a flexible and balanced use of monetary and exchange policies. It cautioned, however, that these policies will remain constrained by the size of the public debt and the high share of variable rate and foreign currency-linked debt.

- **The mission stressed the mutually reinforcing links between higher growth and achieving greater debt sustainability**. The authorities concurred that a host of structural and social weaknesses still discourage private investment and hamper external competitiveness and limit Jamaica's growth potential. In the period ahead, they will focus on further trade liberalization, addressing remaining vulnerabilities in the financial sector, reducing labor market rigidities, improving the education system, and combating crime.

I. Background

1. **Jamaica has a history of high public indebtedness, with large swings in the public debt-to-GDP ratio**. After exceeding 120 percent of GDP in the late 1980s, the public debt was reduced to 80–90 percent of GDP in the mid-1990s. This reflected sustained overall fiscal surpluses under Fund programs, with primary surpluses exceeding 10 percent of GDP for five consecutive years. However, a subsequent return to fiscal deficits, and a major bail-out of domestic financial institutions that cost approximately 40 percent of GDP, led to a rebound in the public debt ratio (Figure 1).

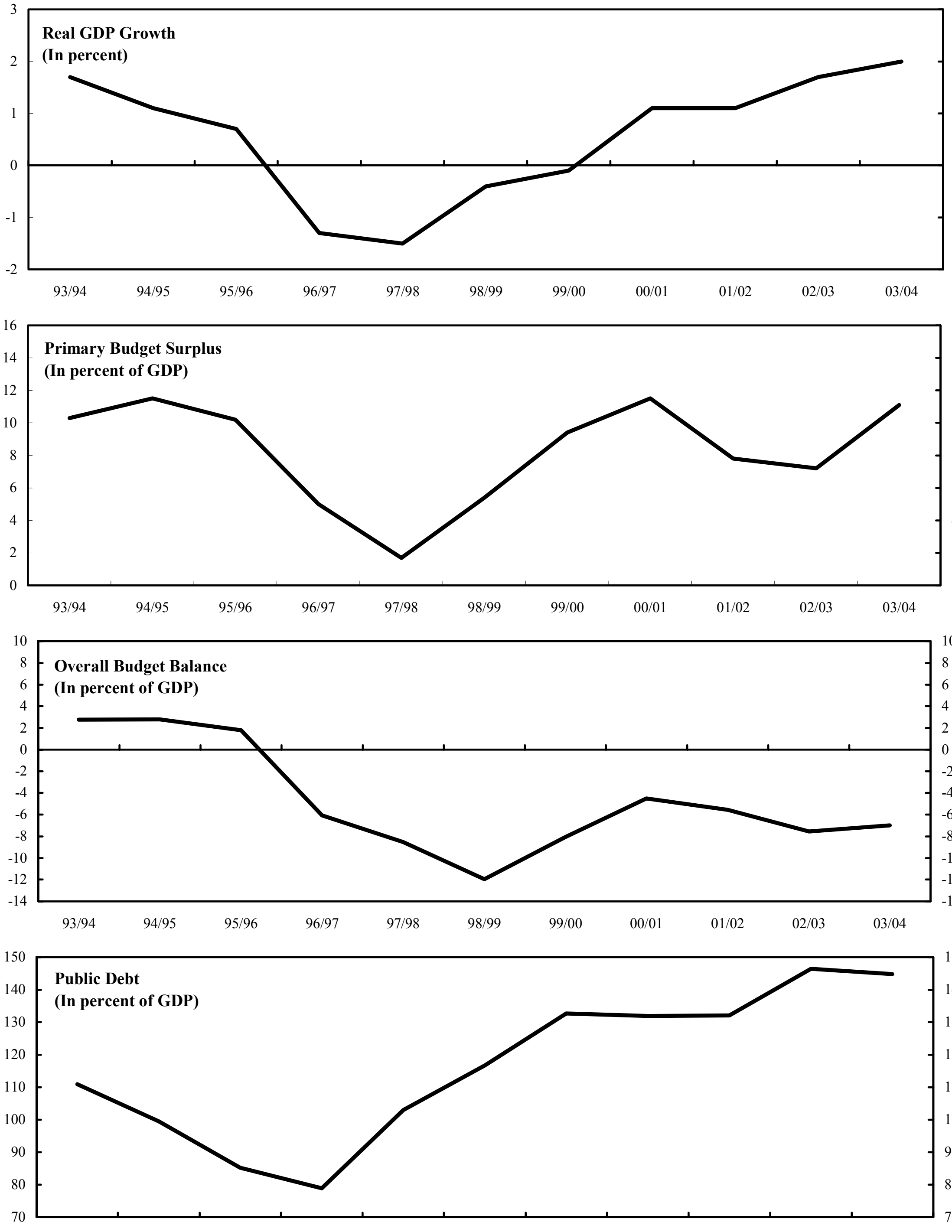
2. **Jamaica's growth performance has been generally poor**. While liberalization and structural changes during the last decade have resulted in more openness and market-orientation, economic growth has been anemic, averaging around 1 percent during 1990–2002. The major impediments to growth have been the crowding out of the private sector and deterioration in economic infrastructure associated with high fiscal deficits and public debt; weaknesses in the financial sector, culminating in a major banking crisis in the mid-1990s; rigidities in the labor market; and a high incidence of crime.

3. **Fiscal slippages and a worsening external current account position led to acute pressures in the foreign exchange market in FY 2002/03 and early FY 2003/04**.[1] From March 2002 to June 2003, the cumulative reserve loss amounted to about US$800 million (about 40 percent) while the currency depreciated against the U.S. dollar by 24 percent (Figure 2). In response, the Bank of Jamaica (BOJ) sharply increased interest rates on its open market instruments to around 35 percent. Higher interest rates and depreciation contributed to a marked increase in the public debt-to-GDP ratio, which peaked at 146½ percent in FY 2002/03. Inflation also accelerated, affected by the high exchange rate pass through.

4. **Fund surveillance has focused on the need for policies to contain Jamaica's large public debt burden and to achieve sustained higher growth over the medium term**. The authorities' views mostly coincided with those of the staff, as reflected in agreements on staff monitored programs (SMPs) that spanned the period FY 2000/01–FY 2002/03. However, progress in implementing agreed policies has been uneven, reflecting policy slippages and negative external shocks. In particular, fiscal deficit targets were missed on account of overruns in the wage bill and other current expenditure, as well as higher interest outlays. Moreover, much of the fiscal adjustment undertaken in recent years has relied heavily on distortionary tax increases and unsustainable cuts in capital expenditure.

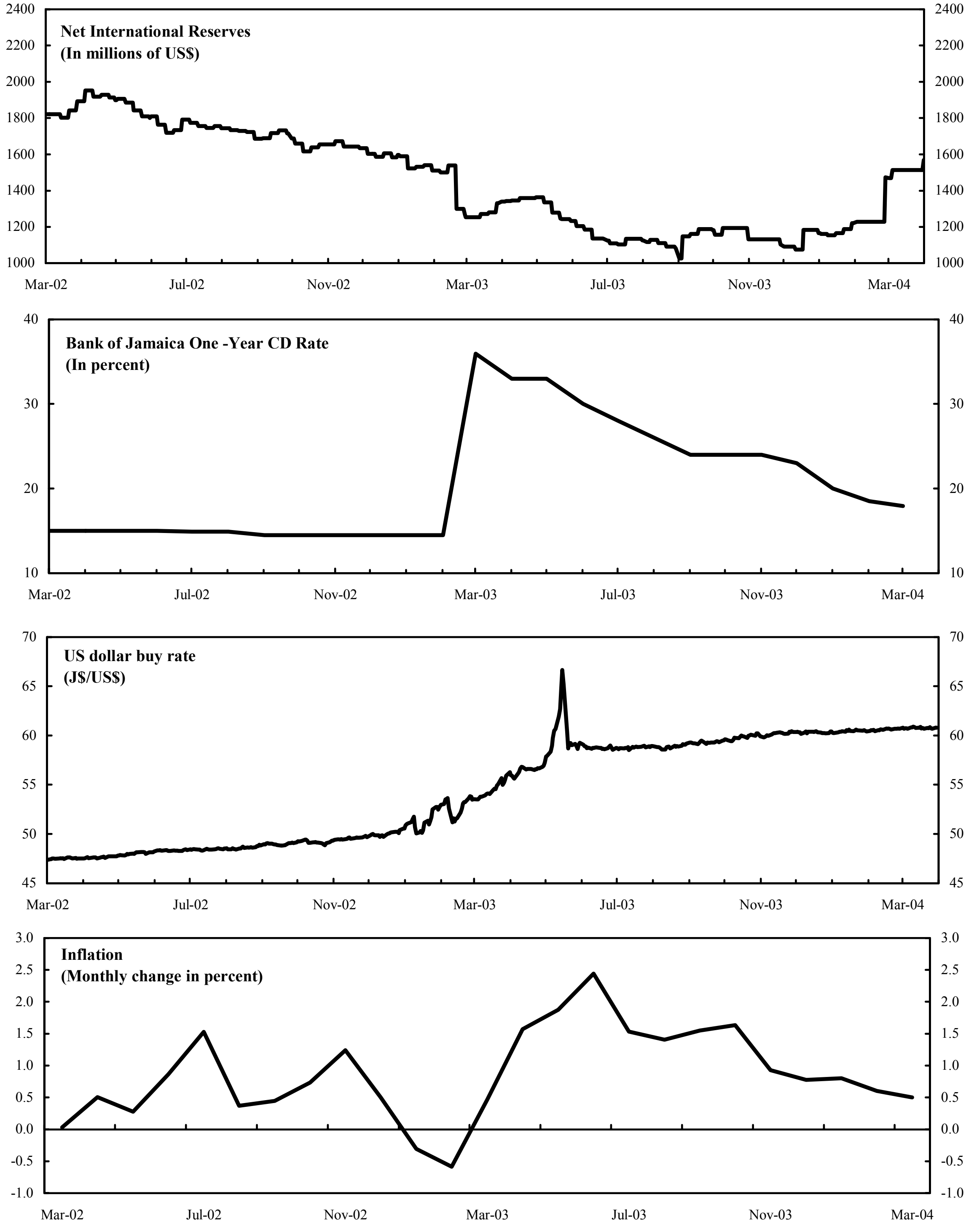
[1] The fiscal year runs from April to March.

Figure 1. Jamaica: Growth, Budget Balances, and Public Debt,
FY 1993/94–FY 2003/04



Sources: Jamaican authorities; and Fund staff estimates.

Figure 2. Jamaica: NIR, Monetary and Exchange Rate Policy Response, and Inflation
FY 2002/03–FY 2003/04



Sources: Jamaican authorities; and Fund staff estimates.

II. Recent Developments

5. **Following the near crisis in the first half of 2003, the authorities have succeeded over the past year in stabilizing the economy and restoring market confidence**. The foreign exchange market stabilized in mid-2003, inflation has decelerated, domestic interest rates have declined, and growth improved, while Jamaica has returned to the international capital market. Although the external environment was favorable, a key contributor to this outcome was the government's renewed fiscal adjustment effort in FY 2003/04. In particular, the increase in the primary fiscal surplus, reflecting both expenditure savings and revenue measures, allowed the budget deficit target to be met despite higher-than-budgeted interest payments.

6. **After more than a decade of virtual stagnation, real GDP growth reached 2 percent in FY 2003/04 (Table 1)**. The improvement was led by strong performance in the key tourism and mining sectors. The agricultural sector rebounded from the effects of widespread flooding in the previous year, and utility, communication, and financial sectors also turned in good performances. Reflecting the significant exchange rate depreciation in late 2002 and early 2003, as well as the impact of tax measures introduced with the FY 2003/04 budget, twelve-month (as well as year-on year) inflation increased to double digits. However, annualized monthly inflation has declined to single digits in recent months.

7. **In FY 2003/04, the government contained the budget deficit in relation to GDP slightly below the preceding year's outturn, despite a much higher interest bill**. The primary surplus (excluding privatization-related receipts) increased by 4 percentage points of GDP, to 11 percent of GDP, compared to 7 percent of GDP in FY 2002/03 (Table 2).[2] Revenue increased by about 2 percentage points of GDP, to 30 percent of GDP, reflecting higher receipts from the general consumption tax, personal income tax, and taxes on interest as a result of measures introduced in the FY 2003/04 budget, as well as the imposition of an import surcharge. Primary expenditure declined by 2 percentage points, to 19 percent of GDP, as cuts in nonwage current spending and capital outlays were implemented.[3] While the deficit was initially financed largely from domestic sources, the government was able to secure, towards the end of the fiscal year, foreign currency financing of around

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[2] In the authorities' presentation of the fiscal accounts, the FY 2003/04 capital revenue includes J$4 billion that originated from the sale of future privatization receipts associated with sale of intervened financial institutions in previous years.

[3] Regarding other fiscal operations, extra-budgetary expenditure declined to 2 percent of GDP reflecting lower central bank losses and broadly unchanged expenditure through the deferred financing scheme. Taking such expenditure into account, the overall government deficit narrowed by 1½ percentage points of GDP, to 9.3 percent of GDP. Meanwhile, the consolidated overall surplus of the major public sector bodies improved to 1.7 percent of GDP in FY 2003/04. Except for significant losses of National Water Commission (NWC), most other large entities delivered good results last year.

US$450 million (including a €200 million Eurobond issue in February 2004).[4] The public debt ratio declined slightly, to 145 percent of GDP.[5]

8. **Monetary policy has continued to rely on open market operations guided by inflation and NIR objectives**. Following the sharp increase in interest rates on its open market instruments at the end of FY 2002/03, the BOJ has substantially reduced its interest rates to 14–17 percent by June 2004—less than half the March 2003 peak. Nonetheless, given improved confidence, the BOJ succeeded not only in rolling over maturing CDs, but also in mopping up additional liquidity, associated mainly with government external borrowing. The resulting contraction in the central bank's NDA contained base money growth at about 11½ percent while providing room for a partial recovery in NIR during FY 2003/04 (Table 4).

9. **Developments in the banking system have reflected improved confidence**. Broad money growth exceeded that of nominal GDP, with a significant buildup in foreign assets (Table 5). Private sector credit, mainly to the tourism and telecommunications sectors, showed strong recovery after a prolonged post-financial crisis slowdown. Bank soundness indicators continued to improve: the percentage of past due loans stands at 3 percent, while provisioning for loan losses, capital adequacy, and profitability remain well above minimum international standards (Table 6). While deposit dollarization increased somewhat,[6] banks have maintained a roughly balanced foreign exchange position.[7]

10. **The external current account deficit narrowed by 4 percentage points of GDP to 11 percent of GDP in FY 2003/04 (Table 7)**. Tourism completed its recovery and alumina exports rose in the context of capacity expansion, increased international demand, and better export prices. Agricultural exports experienced a weather-related improvement while

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[4] This bond issue had a five-year maturity and a yield of 10.5 percent. More recently, the government issued a €200 million Eurobond with an eight-year maturity and a yield of 11 percent.

[5] Over 50 percent of the total debt is in foreign currency or indexed to the U.S. dollar, while a further 25 percent consists of variable-rate instruments linked to the six-month Treasury bill yield (Table 3).

[6] Interest rates on local currency time deposits have remained in the 8–9 percent range, even during the period of rapid depreciation and high inflation in the first half of 2003, compared with 5–6 percent on foreign currency deposits. Lending rates in local currency also remained stable. Meanwhile, rates offered by securities dealers, whose very large funding base is more interest-sensitive, paralleled the BOJ policy rates.

[7] Banks have continued to use their foreign currency resources primarily to invest in government dollar-denominated debt and to lend to private sector clients with foreign exchange revenue.

reported remittances also rose.[8] Imports declined reflecting currency depreciation and the winding down of investments in the telecommunication sector.[9]

11. **The exchange rate of the Jamaican dollar has continued to be determined in an interbank market that is free of restrictions on current payments, and in the context of an open capital account**. The exchange rate has remained around J$60 per U.S. dollar over the past year, in the context of declining domestic interest rates and broadly unchanged official international reserves. The real effective exchange rate has risen somewhat following the steep depreciation in late 2002/early 2003, but remains well below its range in the six-year period through 2002 (Figure 3).

III. Report on the Discussions

12. **In the context of the authorities' request for intensified surveillance, the discussions centered on their strategy for bringing down the public debt-to-GDP ratio, the major vulnerability to Jamaica's economy**. The mission emphasized that a serious attack on the fiscal deficiencies was also key to promoting growth. The authorities are aware that Jamaica's extremely high levels of public debt, coupled with high exposure to interest and exchange rate volatility, constitute an impediment to rapid growth as well as threatening the stability of the economy and the financial sector. It is with this in mind that they have embarked on a strategy, of ambitious and prolonged fiscal adjustment, aimed at a gradual reduction in the debt ratio. They continue to rule out seeking a rapid reduction in the debt ratio through a comprehensive debt restructuring involving a substantial cut in NPV. The authorities believe that such a debt restructuring would be highly detrimental both in its immediate impact on the economy given the large holdings of public debt by the financial system[10] and because of the damage it would inflict on Jamaica's access to international capital markets.

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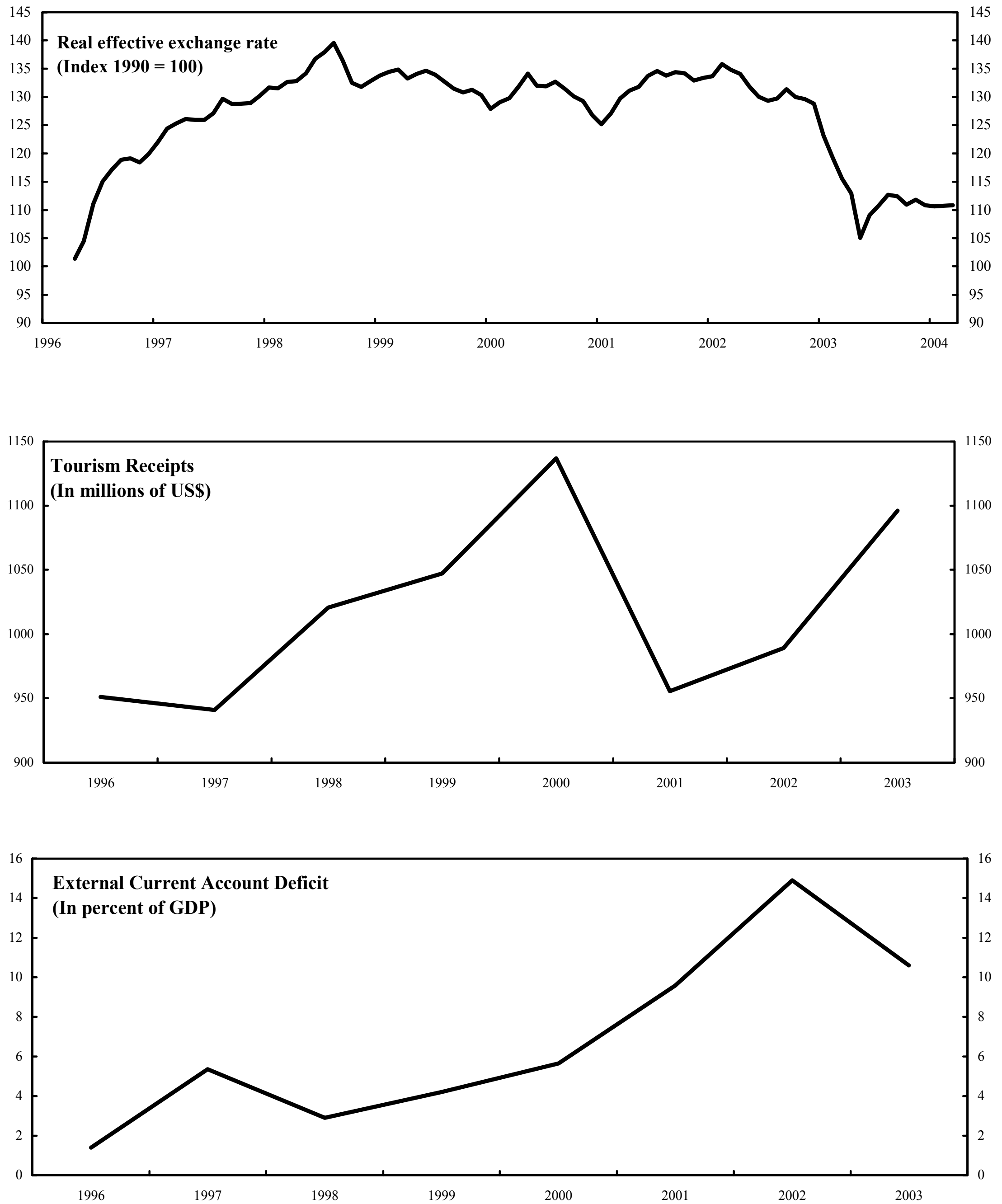
[8] Remittances are believed to remain underestimated, partly due to misclassification of capital inflows.

[9] A change in government guidelines on duty concessions to public sector workers for motor vehicle imports also contributed to the decline in imports.

[10] About 70 percent of the total public debt is held domestically, including an estimated 10 percent in residents' holdings of global bonds. The financial system holds close to three-quarters of the domestically issued debt plus some of the residents' holdings of global bonds. Thus, 50–55 percent of total public debt is held on the balance sheet of the financial system, about one-half of which by securities dealers. The externally held debt (about 30 percent of GDP) is roughly equally split between official and commercial creditors.

Figure 3. Jamaica: Real Effective Exchange Rate and External Sector Developments, 1996–2003



Sources: Jamaican authorities; and Fund staff estimates.

13. **While supporting the authorities' fiscal consolidation efforts, the mission underscored the need for structural reforms to mitigate implementation risks and reduce vulnerability to shocks, as well as to promote higher growth**. The mission indicated that it shared the authorities' concerns over the potentially disruptive effects of a debt restructuring. However, it stressed that the authorities' strategy required structural reforms in the fiscal area to help mitigate the major implementation risks involved in targeting very high primary surpluses for an extended period. The mission noted that the economy will, in any case, remain vulnerable to shocks over the medium term because of the elevated public debt ratio, large gross financing requirements,[11] and high degree of indexation of the domestic debt to the U.S. dollar and to short-run interest rates. The high public debt will also imply a continued vulnerability for the heavily exposed financial system. Furthermore, although the envisaged fiscal consolidation and reduction in the debt burden will improve the environment for private investment, it will limit the government's ability to spend on social programs and infrastructure without a major additional revenue effort. In this context, the staff urged the authorities to take steps to raise Jamaica's growth potential through reforms to promote private sector initiative and reduce impediments to investment and employment, including tax and labor market reforms.

A. Fiscal Policy Framework

14. **The authorities' fiscal strategy calls for balancing the budget by FY 2005/06, and maintaining small overall surpluses thereafter in order to bring about a sustained reduction in the debt ratio**. This strategy is predicated on primary surpluses of about 14 percent of GDP over the medium term. On this basis, the public debt would decline gradually to just above 100 percent of GDP by FY 2008/09. As a first step, the government is targeting a reduction in the budget deficit to below 4 percent of GDP in FY 2004/05, in the context of a macroeconomic program whose objectives include real GDP growth in the range of 2–3 percent, a reduction in twelve-month inflation to single digits, and maintenance of broadly unchanged NIR. The public debt ratio is projected to decline by 8½ percentage points of GDP in FY 2004/05, to 136½ percent of GDP.[12]

15. **The targeted reduction in the budget deficit in FY 2004/05 would be achieved mostly through an increase in the primary surplus**. The primary surplus is expected to rise by 2.7 percentage points of GDP, to 13.8 percent of GDP. Budgetary revenue is projected to increase by 1.9 percentage points of GDP, reflecting stepped-up collection of arrears (1.0 percent of GDP), expected grant disbursements from the EU (0.7 percent of GDP), and the full-year impact of measures introduced in the FY 2003/04 budget (0.2 percent of GDP). Primary expenditure is projected to decline by 0.8 percent of GDP. In

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[11] The gross financing requirement for FY 2004/05 is estimated at 31 percent of GDP.

[12] Extra-budgetary expenditure is projected to rise by 1 percentage point of GDP, to 3 percent of GDP in FY 2004/05, before declining over the medium term. The bulk of this expenditure is related to central bank losses (2.7 percent of GDP in FY 2004/05), which are expected to decline over the medium term reflecting lower domestic interest rates and higher international reserves (see Table 2).

particular, reflecting the wage moderation agreed under an Memorandum of Understanding (MOU) with the trade unions,[13] the wage bill is projected to decline by 1.1 percentage points of GDP (to 11.3 percent of GDP).[14] The budget provides some room for an increase in public investment. The interest bill is projected to decline only slightly as interest payments on certain debt instruments will continue to reflect high interest rates that prevailed last year.

16. **The mission expressed the view that the fiscal targets for FY 2004/05 appear ambitious, but achievable with a determined policy effort**. A successful fiscal outturn will hinge on unwavering efforts at tax collection, including the collection of tax arrears (particularly from larger tax payers), and expenditure control, especially considering potential pressures on expenditure from sustained high oil prices.[15] The latter could have implications for implementation of the MOU with the trade unions, strict adherence to which is critical for the achievement of the fiscal targets. Priority expenditures, including on the social sector (particularly education-related), should be protected.

17. **Regarding the medium term, however, the mission's projections pointed to the need for additional measures to secure the authorities' budgetary targets**. The shortfall relative to the target, on the basis of unchanged policies, partly reflects the non-recurrence of one-off factors included in this year's revenue projections (foreign grants and tax arrears). In addition, the mission projected somewhat higher interest expenditure than the authorities, on account of a slower assumed decline in interest rates. As a result, a gap of about 1.7 percent of GDP would emerge in FY 2005/06 relative to the authorities' balanced-budget target (see Table 2). The mission encouraged the government to move quickly to identify policies to close this potential gap, for example in the context of the forthcoming tax reform. The authorities indicated that they expected to continue to collect tax arrears in FY 2005/06, and that, in any event, they would keep the fiscal outlook under review and stood ready to take measures to ensure achievement of the medium-term budgetary targets.

18. **More fundamentally, the mission underscored that it would be unprecedented for a country to sustain, for a protracted period, the stringent fiscal discipline envisaged by the authorities**. In view of the major implementation risks to their fiscal strategy, the mission encouraged the authorities to elaborate a comprehensive fiscal reform agenda to strengthen the budgetary outlook. In particular, the envisaged reduction in the wage bill, by 3 percentage points of GDP over the medium term, will need to be underpinned by policies to rationalize government employment and thus solidify the savings achieved through the recently agreed two-year wage restraint.

[13] The MOU caps annual wage increases at 3 percent for two years.

[14] Adjusted for a budgeted payment of arrears on wage-related payroll contributions, the decline in the wage bill would be 1.7 percentage points of GDP.

[15] The pricing mechanism for petroleum products permits an automatic pass-through of higher import prices.

Fiscal reforms

19. **While revenue collection in Jamaica is at levels comparable to other middle-income countries, important distortions are present in the tax system**. Reforms introduced in the late 1980s resulted in a simple system with broad consumption and income tax bases and few rates. However, over time, the system has become more complex, on account of a series of ad-hoc measures and exemptions. Against this background, the government plans to reform the tax system in the context of next year's budget with a view to increasing its efficiency and equity. The mission advised that the authorities design the tax reform in a manner that helps achievement of the balanced budget target for next year, and provides for a stable ratio of tax revenue to GDP over the medium term.[16] The mission also suggested the removal of the many exemptions that narrow the consumption tax base and the elimination of reduced rates and other features that complicate the tax system.

20. **Revenue administration has been strengthened through recent major reforms and remaining weaknesses are being addressed**. The recent reorganization of the revenue administration department along functional lines has improved audit and assessment functions, in combination with the development of an integrated tax administration computer system. In the area of customs administration, recent reforms introduced service automation and online payments of duties and taxes, quality control systems, more efficient goods clearance procedures (based on risk assessment of goods to be inspected and fast-track release for compliant importers), and electronic links with tax administration. The authorities were of the view that these measures had played an important role in the increase in revenue to GDP in FY 2003/04. During FY 2004/05 the authorities plan to establish a comprehensive tax arrears collection plan with specific annual targets; strengthen the monitoring of arrears collection; and review the related administrative procedures. The mission encouraged the authorities to proceed with these reforms and to focus the tax arrears collection efforts on larger taxpayers.

21. **The government intends to advance reforms in the public expenditure management system over the medium term**. The plan for the current year is to extend modernization measures implemented in the pilot ministries to the rest of the central government. These measures aim at establishing output-based budgeting, and linking salary increases to performance by the end of this fiscal year, and moving toward accrual accounting over a three-year period. In addition, the authorities plan further to strengthen the cash management system. The mission noted that, while these measures are important, they would require adequate time and resources to be implemented; and that emphasis should also be given to strengthening reporting of public enterprise finances and contingent fiscal liabilities.

22. **Effective public expenditure allocation is constrained by the size of the wage and interest bills, which, together, represent over 80 percent of budgetary expenditure**. Spending on wages exceeds 12 percent of GDP, while capital outlays are comparatively low.

[16] The medium-term projections show a decline in the tax revenue-to-GDP ratio (see Table 2), reflecting lower receipts from the tax on interest income as the government's interest bill declines in relation to GDP.

This reflects, in large part, high public sector employment levels. The MOU will reduce public sector wage growth in the period April, 2004 to March 2006—by freezing employment and capping nominal public sector salary increases below inflation. It also calls for a modernization and rationalization of public sector activities but no specific plans have been prepared so far. The mission urged the authorities to use the opportunity provided by the MOU to rationalize public sector employment concurrent with wider structural reforms aimed at fostering private sector activity. At the same time, the social protection system and the social safety net should be strengthened to mitigate the short-term social impact of these measures.

B. Monetary and Exchange Rate Policy

23. **The BOJ indicated that it will continue to rely on open market operations to target a base money growth compatible with its inflation and balance of payments objectives**. In this connection, the BOJ will operate on the assumption that the demand for broad money (M3) will grow in FY 2004/05 at least in line with nominal GDP. Taking into account the fiscal outlook, this would provide resources for continued strong growth in credit to the private sector. The BOJ's NIR target for end-March 2005 is US$1.4 billion—somewhat less than the March 2004 level, which reflected recent external bond placements in anticipation of upcoming debt repayments.[17] On the further assumption that the demand for base money will parallel that for M3, the BOJ has set an NDA target whose achievement will require only a small increase in the stock of open market instruments. This would facilitate some further decline in interest rates on open market instruments. The BOJ indicated that it will exercise flexibility in its conduct of exchange rate policy, and believes that the monetary projections are consistent with a roughly unchanged real effective exchange rate.

24. **The authorities' NIR target is consistent with a projected widening in the external current account deficit in FY 2004/05**. Historically, Jamaica's current account deficit has been large, reflecting imports for the tourism and mining sectors, which have been financed largely by foreign direct investment in these sectors. In FY 2004/05, the current account deficit is projected to widen by 2½ percentage points of GDP (13.2 percent of GDP), reflecting mainly a higher oil import bill and an increase in the expatriation of profits and dividends.

25. **The mission supported the authorities' inflation and NIR objectives, and recommended a flexible and balanced use of monetary and exchange policies**. The mission welcomed the fact that, over the past year, the exchange rate had continued to be

[17] The authorities' NIR target for FY 2004/05 is equivalent to about 40 percent of broad money and is consistent with gross reserves of 12 weeks of imports, or about 70 percent of the government's short-term debt obligations.