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June 2008
IMF Country Report No. 08/199

Jamaica: 2008 Article IV Consultation—Staff Report; Staff Supplement; 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 Article IV consultation with Jamaica, the following documents have been released and are included in this package:

- The staff report for the Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 14, 2008**,** 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 April 3, 2008. 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 staff supplement of April 16, 2008 updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its April 21, 2008 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Jamaica.

The document listed below has been or will be separately released.

Selected Issues Paper

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 2008 Article IV Consultation

Prepared by the Staff Representatives for the 2008 Consultation with Jamaica

Approved by Ranjit Teja and Matthew Fisher

April 3, 2008

- **Context**. Jamaica has been under intensified Fund surveillance since 2004. The new administration, which in September 2007 replaced the outgoing government of 18 years, intends to continue this arrangement. Intensified surveillance has focused on helping improve the fiscal and debt profiles. Macroeconomic outcomes have generally fallen short of the authorities' objectives in recent years.
- **Developments**. Economic growth weakened, inflation accelerated and balance of payments pressures emerged in 2007. The budget deficit target was revised upwards and reserves declined.
- **Key policy recommendations**. A weakened global economy and increased financial volatility add to the ongoing policy challenges presented by high public debt:
  - Reduce the public debt/GDP ratio to about 100 percent of GDP over five years by raising the primary surplus gradually by 4–4½ percentage points of GDP over the same period. Begin the process with a strong adjustment of over 1 percent of GDP in the fiscal year starting in April 2008.
  - Tighten monetary policy moderately to stem reserve losses and reduce inflation but let the Jamaican dollar find its level if pressures persist.
  - Close fraudulent investment schemes, many of which resemble pyramid or Ponzi schemes and could have important macroeconomic spillovers. Improve information on, and supervision over, financial conglomerates, including in a regional context.
- **Authorities' reactions**. An ambitious medium-term program of fiscal adjustment and structural reforms will reduce debt but its implementation requires time. A broadly unchanged primary surplus in FY 2008/09 is more realistic. Achieving such a target will help build credibility, which could be hurt by over reaching with excessively ambitious objectives at the outset of the program. Recent increases in interest rates have helped reserves recover and the central bank stands ready to take further action, as warranted.
- **Mission**. The team visiting Jamaica during March 3–14 comprised Messrs. Panth (Head), Guerson, and Faircloth (all WHD); and Ms. Li (PDR). Executive Director Fried and Ms. Morgan (OED) participated in the final discussions.

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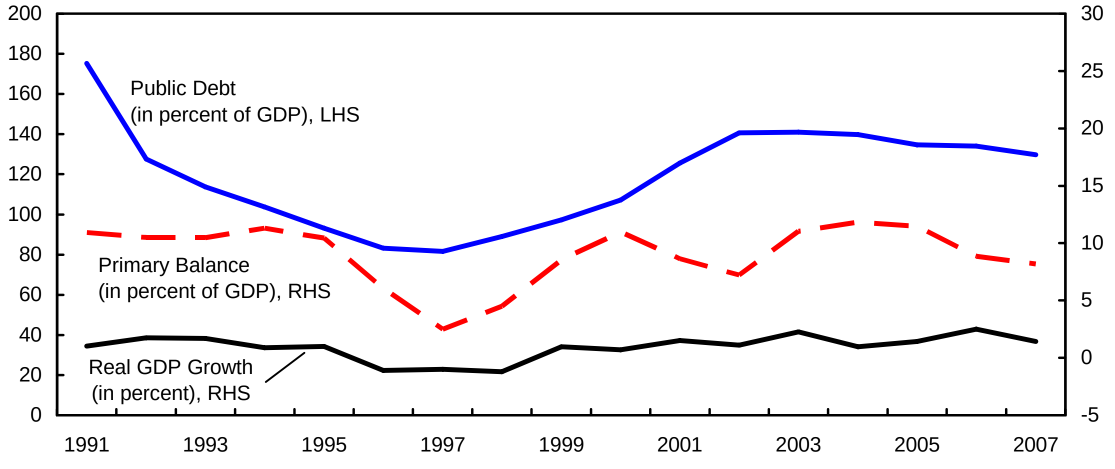
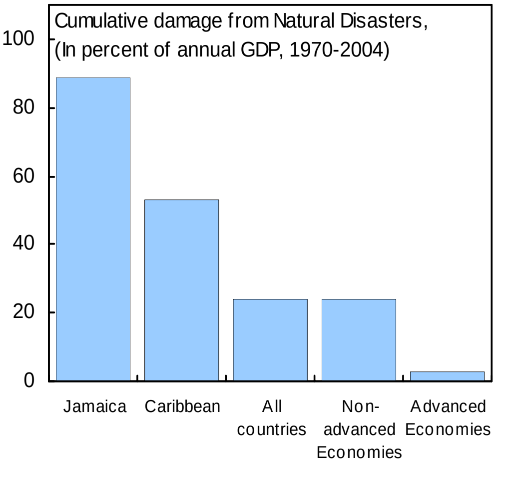
I. Background

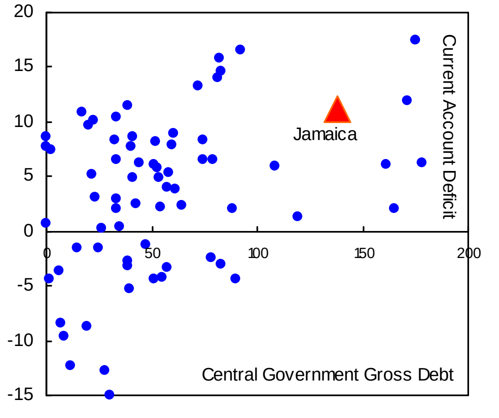
1. **Jamaica has long struggled with low economic growth and high public debt**. Annual real GDP growth has averaged only 1 percent since 1991. Public debt increased substantially after a banking crisis in the mid-1990s and currently stands at 128 percent of GDP, despite a program adopted in 2004 to reduce it to around 100 percent of GDP by 2009.



2. **Economic growth variability is, however, low in Jamaica, with deviations driven more by weather than by external conditions**. Since 1993, Jamaica has not grown faster than 2½ percent. On the other hand, the economy has not shrunk on a year-to-year basis either, except during 1997–98 when annual contractions were limited to 1¼ percent. What variability there is in growth appears due to natural disasters. Simple growth correlations with the rest of the Caribbean, Latin America and the United States for 1991–2006 are statistically insignificant.



3. **External developments do, nevertheless, have large financial implications for Jamaica**. Jamaica has a relatively narrow export base, is very dependent on energy imports and relies heavily on remittances and external market financing. Both in terms of its current account deficit and debt, Jamaica is exceptionally exposed to the vicissitudes of global economic and financial market conditions and sentiments.



4. **Developments in Jamaica can, in turn, have a significant influence in the wider Caribbean**. Jamaica has the second-largest economy in the Caribbean community (CARICOM). Largely the same set of banks, security dealers and insurance companies operate in these

countries. Moreover, the Caribbean Community (CARICOM) adopted a common market this year and is committed to creating a single economic space by 2015. The potential for regional spillovers from Jamaica that already exists can, therefore, be expected to grow further with regional integration.

5. **A recent political transition provides an opportunity to reinvigorate reforms but success will require consensus across the political divide**. In September, the Jamaica Labour Party (JLP) formed a new government, following a narrow electoral victory over the People's National Party (PNP), which had continuously held office for 18 years. However, many of the reforms necessary to ensure durable debt reduction are politically difficult and will require broad national support to implement.

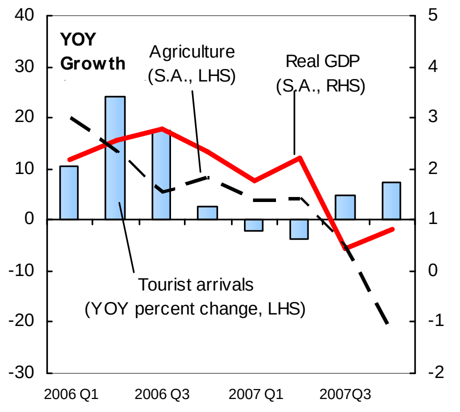
6. **The new administration's program to tackle Jamaica's challenges is being cast in an environment that has notably worsened**.

- **Economic growth likely slowed to 1 percent in FY 2007/08 (ending in March), while inflation has surged to 18 percent in recent months**. *While food and fuel prices explain most of the increase, core inflation has also reached double digits (Box 1).*
- **Unregulated investment schemes promising implausibly high returns in excess of 10 percent per month have proliferated**. *These schemes have the potential to cause social and macroeconomic instability and hurt the financial sector*.
- **Reserves declined sharply in 2007 before recovering more recently**. *The pressures on the exchange rate are due to both a widened current account deficit and capital outflows (see Box 1).*
- **Going forward, the deteriorating external environment could have budgetary costs**. *Revenues from tourism and bauxite exports may be at risk in the slowed global economy, while the global credit crunch and repricing of risk could increase debt service costs (Box 2).*

7. **As in other countries with very high debt, Jamaica's public finances severely limit the room for policy maneuverability**. Jamaica's situation has many similarities, but also important differences, with other high debt, middle-income countries, such as Lebanon (Figure 1). Both countries have maintained macroeconomic stability for an extended period despite their persistently high public debt levels (134 percent of GDP in Jamaica, 177 percent of GDP in Lebanon in 2006). An important factor in this regard has been the ability of both countries to rely on the domestic financial system for much of the government's financing needs. The resulting dependence has, however, also created systemic risks, in that shocks to either the government or the financial sector could quickly transmit to the other and on to the broader economy. Lebanon has a fixed peg, which is credited with helping to maintain financial stability. Jamaica has a flexible exchange rate that has helped to adjust to shocks.

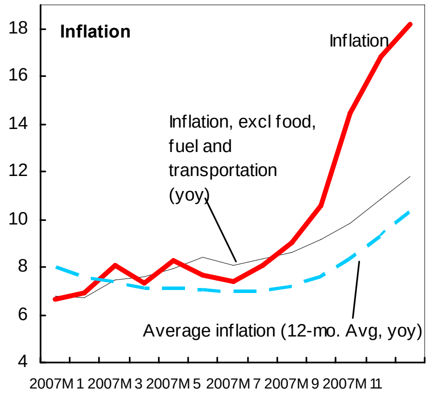
Box 1. Jamaica: Economic Developments in FY 2007/08

Exogenous developments led to weaker growth, higher inflation and a wider current account deficit. On the policy front, the original budget deficit target was revised upwards and interest rates were increased following large reserve losses.



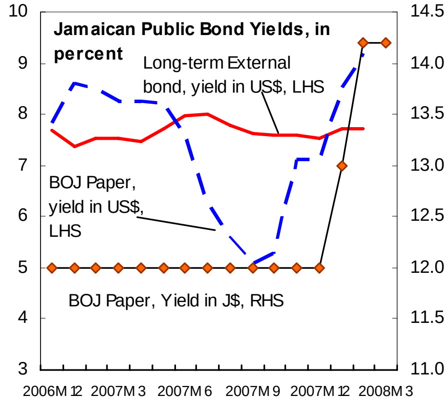
- **Natural disasters mainly explain the fall in real GDP growth by 1½ percent over FY 2006/07**. Hurricane Dean and floods caused extensive damage to agriculture. Also, there was a reversal of the one-off increase in tourists diverted from hurricane-affected Mexican destinations in 2006.

- **The recent surge in headline annual inflation is due to supply shocks**. Dean added to pressures from rising global food prices. Inflation also accelerated from higher fuel import costs, which are fully passed through to consumers. Some second-round effects of these price changes, as well as a quickened pace of exchange rate depreciation, led to an upward drift in core inflation to 11¾ percent by January 2008.



- **Reserves fell by about a fifth during June–November 2007, due to a combination of external and domestic factors:**

  - **Weak export growth and rising import prices lie behind the widening of the current account deficit by 3¾ percentage points to 15½ percent of GDP**. Food export growth slowed sharply in tandem with the slowing of agricultural production, while bauxite exports suffered from capacity constraints. The net energy import bill, however, rose to 14 percent of GDP, from 12 percent in 2006.



  - **Global market turbulence contributed to capital outflows**. Global increases in emerging market debt spreads reduced the local currency yield premium on Jamaica's domestic debt (in comparison to its Eurobonds), encouraging a portfolio shift away from Jamaican-dollar instruments. While hard data is absent, some of the outflows could also be related to unregulated investment schemes (see Box 4).

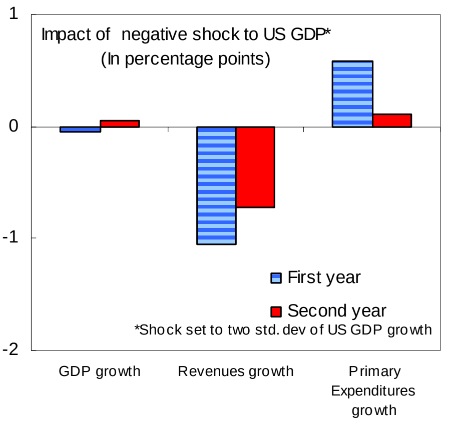
  - **The announcement by the new government of inherited spending commitments outside of the budget also contributed to market unease**. The new authorities subsequently presented revised comprehensive estimates to parliament that projected a widening of the FY 2007/08 budget deficit by 1½ percent of GDP after allowing also for some new spending initiatives as well as nonprogrammed revenues.

- **The pressures on the exchange rate led the central bank to increase interest rates by 220 basis points in early 2008, which has helped reserves recover recently**. About half of the reserve loss during June–November has been reversed in recent weeks following increases in six-month interest rates to 14.2 percent and the external sale of a large private Jamaican enterprise.

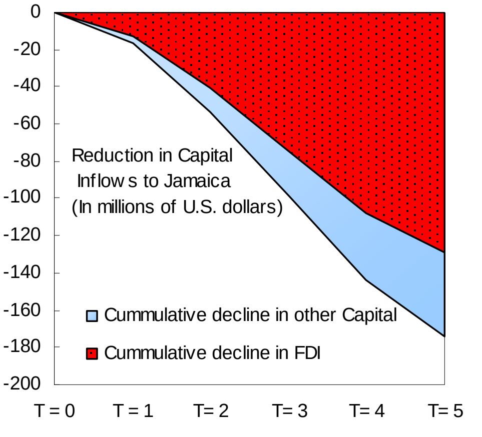
Box 2. Jamaica: Impact of External Economic Slowdowns and Credit Crunches

A look at the historical data shows that the impact of U.S. macroeconomic stress is: (1) small on GDP but (2) larger on the budget, exports, and capital flows.

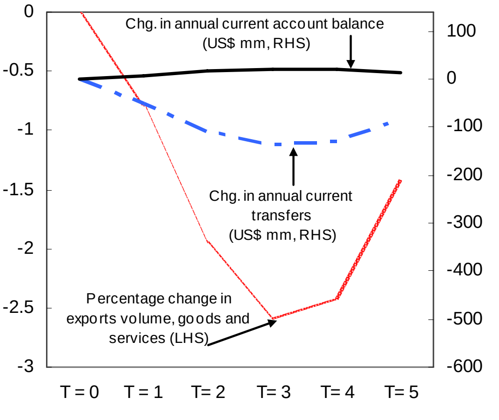
- **U.S. slowdowns have been associated with a worsening of the primary fiscal balance in Jamaica but have not had a very significant economic growth impact.** Revenues that are tourism and bauxite-export based would be adversely affected by a U.S. slowdown as would customs receipts. The data suggests that this fiscal counter cyclicality has extended to expenditures. Jamaica's growth has, however, not been volatile and the impact of slowdowns in the United States may have been further limited by the countercyclical fiscal policies.



- **Slowdowns in U.S. GDP growth or credit crunches have, however, been associated with a persistent reduction of capital inflows.** An econometric model suggests that a two-standard reduction in U.S. GDP growth, followed by a return to trend levels, has led to declines in capital inflows into Jamaica by about US$170 million, on average, cumulatively over a five-year period. If the subsequent rebound in the U.S. is only to earlier trend rates (rather than levels), the decline in capital inflows into Jamaica almost doubles to US$300 million (a sixth of reserves). Lower credit growth in the United States has had a similar but even larger impact on capital flows.



- **The same model predicts that while export receipts and remittances can decline sharply, the impact on the overall current account balance is likely to be small, if any.** This is because much of Jamaica's imports are for tourists and would decrease with tourism receipts. Also, a large share of the remittances pay for imported consumer goods by otherwise financially-constrained individuals. Finally, U.S. growth slowdowns have usually led to lower prices for petroleum, a major import for Jamaica.



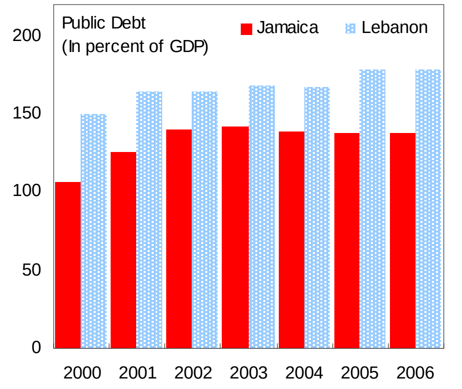
Historical relationships may, however, not hold in the future. First, the sheer number, variety and frequency of shocks impacting Jamaica means that no single model can accurately capture all the dynamic relationships, so spurious correlations cannot entirely be ruled out. Second, structural breaks limit the models' predictive powers. In particular, with global financial integration, financial flows may be affected even more now—indeed, the transmission of the U.S. subprime debacle to other financial systems is unprecedented and unpredictable. Third, and most fundamentally, because they treat policies as endogenous, the models do not allow for policy changes to affect predicted outcomes.

Figure 1. Comparing Jamaica and Lenanon

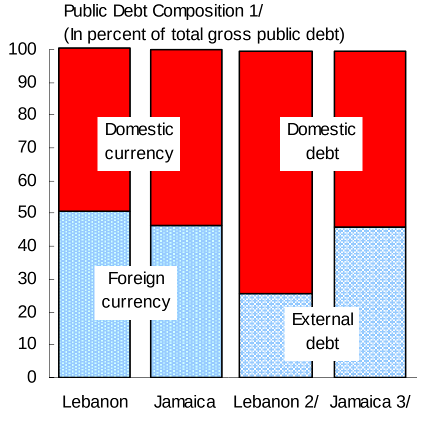
Jamaica and Lebanon are both emerging market economies with high public debt burdens...

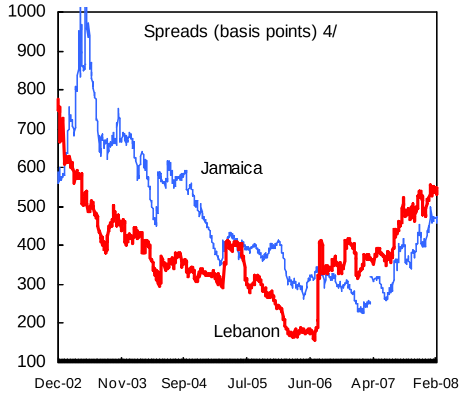
Selected Indicators
(2006 data, unless otherwise specified)

	GDP per capita, PPP $	Reserves/ Base Money	Inflation, eop	Broad money	Govt. Rev (excl. grants)
		In percent		In percent of GDP	
Jamaica	4,521	304	16.8	34.8	29.7
Lebanon	5,642	358	7.2	275.5	21.9

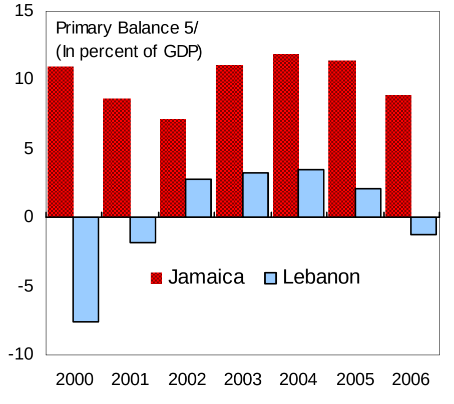


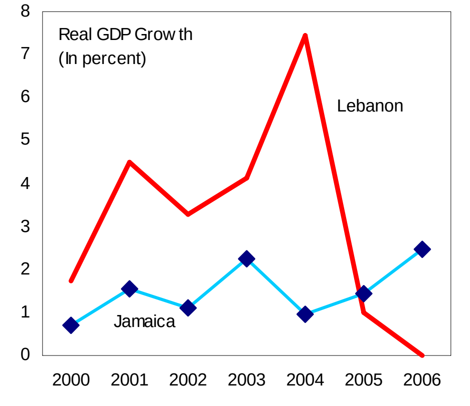
...that are subject to exchange rate risk and vulnerable to shifts in market sentiment.





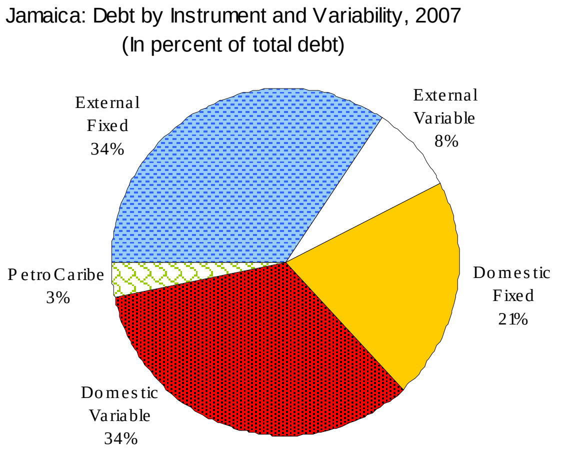
Jamaica has sustained relatively higher primary balances to reduce debt-related vulnerabilities while Lebanon has benefited from higher growth.

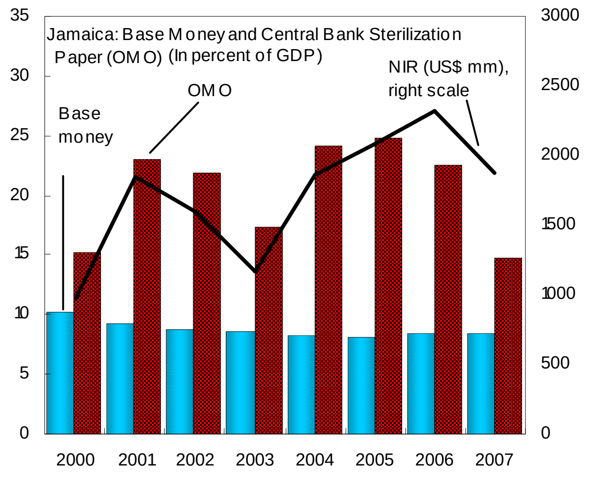




Sources: Country authorities; and Fund staff estimates.
1/ Based on Debt stocks as of end of March 2007.
2/ Includes debt issued by the Central Government and the Central Bank.
3/ Includes external government guaranteed debt and Petrocaribe.
4/ Jamaican data is for blended spreads w hile Lebanese data is for sovereign spreads. There is a structural break in the Jamaican series in April 2007.
5/ Excluding grants.

However, at 80 percent, Jamaica's ratio of debt service to fiscal revenue (while lower than Lebanon's), is still high and a key vulnerability to be addressed.





II. Policy Discussions

8. **Given the vulnerabilities in public finances and the financial system, the discussions focused on four key questions**.

- How can growth be invigorated?
- What is the appropriate path, pace and means for debt reduction?
- How can monetary and exchange rate policy help ensure macroeconomic stability in a period of weakening external demand and increased financial volatility?
- How can financial sector risks be contained in Jamaica and in the region?

A. Economic Growth

9. **The authorities are keenly aware that increasing growth has to be part and parcel of the debt reduction strategy**. Recognizing that the causality between growth and debt runs in both directions, they hope to bring about a virtuous cycle of lower debt and higher growth by simultaneously tackling both the debt problem and the investment climate.

10. **The persistence of low growth in Jamaica is partly a result of resource misallocation caused by high debt**. Overall, investment rates are high. In particular, Jamaica has been relatively successful in attracting foreign investment in tourism and bauxite, which, however, are largely shielded from Jamaica-specific risks and have limited backward linkages. Therefore, the "debt overhang" appears not so much to have reduced investment, the usual channel through which debt affects growth, but rather skewed it towards safer but lower-return activities and industries. Cross-country data show such a

negative relationship between total factor productivity and debt (Figure 2). Furthermore, given the complementarity between public and private investment, countries with very low public investment, such as Jamaica, appear to grow more slowly, even if private investment remains high.

11. **The authorities plan to improve the investment climate**. They intend to simplify investment procedures, including those related to land purchases; consolidate and streamline other regulatory requirements; and increase efficiency through privatization. With a view to eliminating duplicate functions and institutions, the authorities are also planning to rationalize Jamaica's over 100 off-budget public entities. The rationalization plan will identify entities that can be merged and those that are to be wound up. Furthermore, tax reform that addresses investors' concerns features prominently in the authorities' agenda. According to the World Bank's Doing Business survey (2008), Jamaica currently ranks 170 out of 178 countries in the difficulties associated with paying taxes because of the complexities of the system and the onerous paperwork.

12. **Growth should gradually pick up over the medium term as the reforms yield fruit**. Growth is likely to rebound in 2008 to 2¾ percent (broadly in line with the outturn in 2006), particularly if there is no further hurricane damage. However, permanently ratcheting it upwards will require time for the structural reforms as well as debt reduction to take hold. With reforms, growth could eventually reach 3½ percent.

B. Debt Dynamics and Fiscal Policy

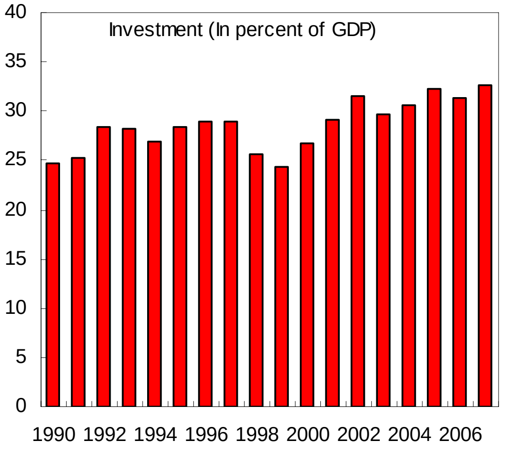
13. **The authorities emphasized that they remain firmly committed to honoring Jamaica's contractual obligations**. They recognize the benefits, in terms of market access and reduced borrowing costs that Jamaica's untarnished record of meeting payments brings.

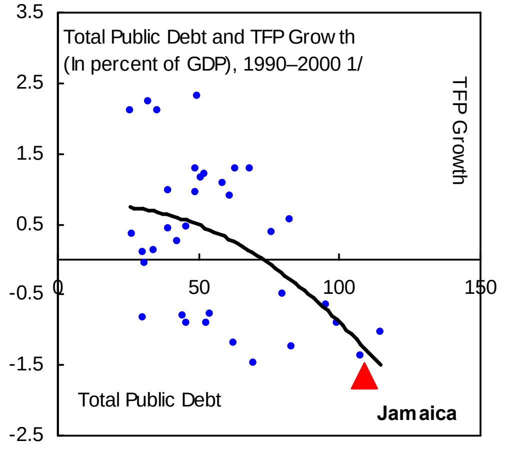
14. **Lowering debt will, therefore, require fiscal adjustment**. The authorities have approached the United Kingdom to lead an international effort to relieve the debt burden of lower middle-income countries like Jamaica and also asked the World Bank to explore ways to help with the debt. However, any official relief will require substantial time, given the absence of clear precedents. Furthermore, as multilateral and bilateral debt accounts for under 10 percent of the total, the scope for official assistance alone to ease the debt is limited. Thus, while increasing growth will pay dividends over the longer-term, fiscal consolidation will have to remain an integral element of the debt reduction agenda over the medium term.

15. **The authorities aim to balance the budget over a three-year period, which could pave the way to reducing debt to about 100 percent of GDP by 2013**. The authorities'current plans imply improving the primary surplus by 3½ percent of GDP between now and 2010. With further fiscal consolidation of 1 percent of GDP during 2011–13, debt could come down to around 100 percent of GDP by FY 2012/13 without any official debt relief (Tables 1–4). However, the implementation of such an adjustment plan does not, by itself, guarantee the desired debt outcome. In particular, if past trends (shocks as well as policy weaknesses) persist, there is only about a 50-percent probability of debt falling below

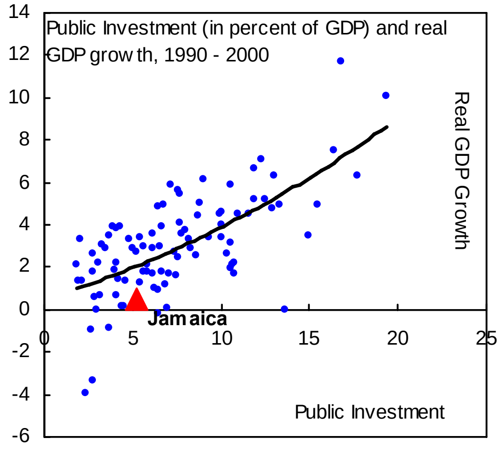
Figure 2. Jamaica: Growth and Structural Reforms

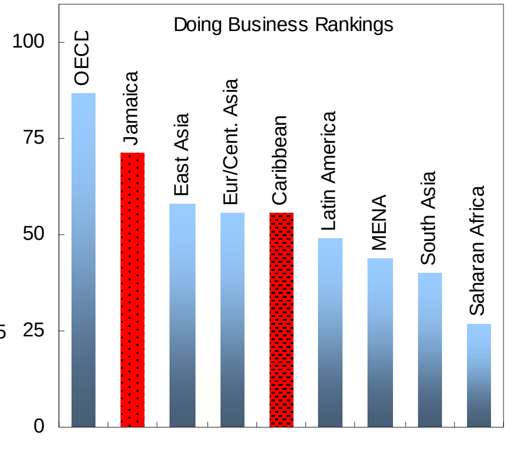
Despite strong investments, productivity is low, which may be related to high debt...





...furthermore, despite ranking well overall in creating a favorable business environment, red tape is an issue...





...and there is significant scope to improve government effectiveness.

Governance Indicators
(Percentile ranking) 2/

	Government Effectiveness	Regulatory Quality	Rule of Law	Voice & Accountability	Political Stability
Jamaica	**59.7**	**58.5**	**33.3**	**63.9**	**36.1**
Caribbean	68.8	66.4	65.0	67.7	66.8
Bahamas, The	84.8	83.9	88.6	79.3	80.8
Barbados	86.7	76.6	83.3	85.1	84.1
Dom. Republic	37.4	49.8	39.5	53.8	52.9
Trinidad & Tobago	63.5	71.2	48.1	62.0	41.3
ECCU 3/	73.5	75.2	72.6	78.1	78.3

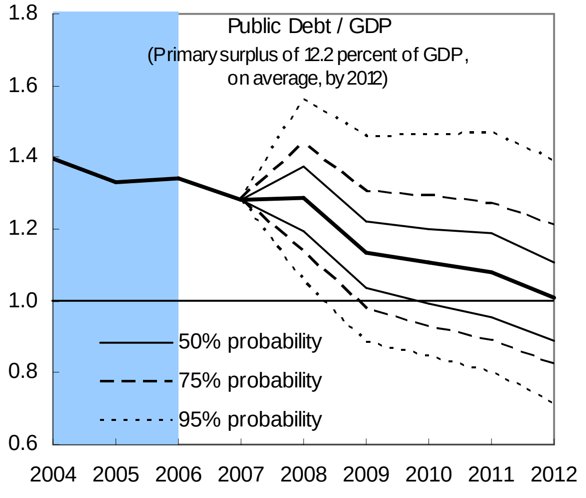
Sources: World Economic Outlook, IMF; World Bank Doing Business Indicators, World Bank Governance Database; country authorities; and Fund staff estimates.

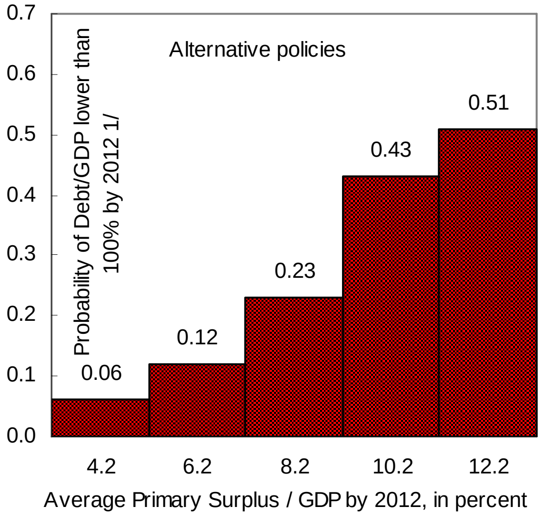
1/ Developing countries subset.

2/ Percentile rank indicates the percent of countries worldwide that rate below the selected country.

3/ Simple average of ECCU country rankings.

100 percent of GDP by 2012/13 even with a planned adjustment of broadly the proposed magnitude.

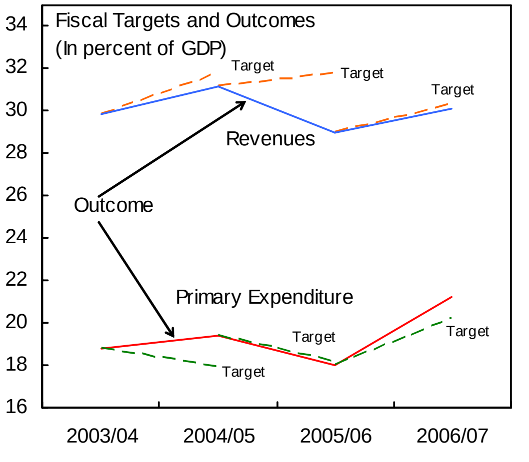




1/ Assuming real GDP grows by 2 percent per year

16. **The risks and uncertainties in reaching the debt target have arisen, in significant part, from shocks to financial and fiscal variables**. For example, weakened investor confidence in 2003 led to a sharp drop in the exchange rate and a higher debt-to-GDP ratio. Similarly, fiscal revenues are sensitive to external developments—more so than GDP (see Box 2). And, frequent natural disasters, for which no contingencies are built in, have led to expenditure overruns.

17. **Past efforts at reducing debt have also not succeeded because the necessary fiscal structural reforms have been lacking**. The central government budget process is weak, as evidenced by the spending commitments outside the budget (see Box 1). There has also been inadequate control over scores of insufficiently transparent off-budget public entities that both help finance, and are financed by, the central government. Although the entities' accounts are published, they are not presented consistently in a way that is amenable to formulating and assessing the overall direction of fiscal policy. And, fundamental reform of public employment has been lacking, resulting in periodic upward spikes of the wage bill (paragraph 20).

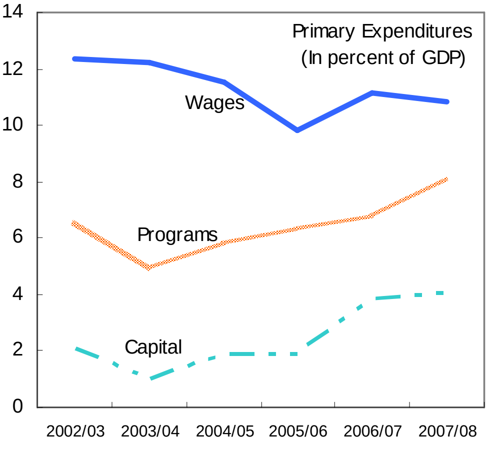


18. **To address some of the fiscal management issues, the authorities are considering adopting fiscal responsibility legislation but other steps are also needed**. Codifying good budget management practice is useful but in the mission's view, it will be equally important to retain fiscal flexibility in a shock-prone economy like Jamaica's. Furthermore, given the

frequent deviations from targets and revision of accounts, the capability to monitor and enforce a fiscal responsibility law needs to be built. It may be helpful to prepare first a fiscal ROSC to identify specific necessary reforms. Similarly, given the increases in debt due to off-budget entities, it is important to enhance the capacity to assess fiscal risk from public enterprises and monitor fiscal policy at the general government level. Strengthened debt management can also assist the authorities' debt reduction effort as can limiting use of PetroCaribe savings by off-budget entities and using them instead to substitute for more expensive central government debt.

19. **The authorities' planned revenue and public enterprise reforms will help reduce debt over the long term**. The tax reforms (paragraph 11), while primarily aimed at simplifying the system, are expected to increase tax collections, as are ongoing efforts supported by the Fund and CARTAC to strengthen tax administration. With Fund TA, the authorities are also planning to review tax exemptions. Furthermore, privatizing loss-makers, in particular Air Jamaica and the Sugar Company, will limit off-budget debt creation, which has been significant in recent years.

20. **Even with these initiatives, however, expenditure measures will be needed**. Nonwage primary expenditures have increased by 4 percent of GDP in the last two years. Also, the past practice of seeking temporary wage freezes from unions in return for a commitment not to retrench has proved unsustainable, with the wage bill rebounding upon the agreements' expiration. The authorities are committed to public employment reform, to improve efficiency and allow for skilled public servants to be paid more adequately. However, such reforms necessarily take time to design and implement and do not normally yield large savings for some time. In the interim, the authorities are seeking to include a clause requiring efficiency improvements in the new agreement being discussed with unions to cover FY 2008/09–2009/10.



21. **It will be important to make a strong start with the fiscal adjustment**. In particular, raising the primary surplus by around 1–1½ percent of GDP in FY 2008/09 can help build credibility and smooth the adjustment profile. Furthermore, in the current context of rising inflation and a widening current account deficit, fiscal consolidation would help the BOJ maintain stability and safeguard reserves. Rolling back now the increases in spending associated with the Cricket World Cup in FY 2006/07 and elections the following year has, in particular, the merit of making the adjustment more durable.

22. **The authorities, however, do not see scope for a significant adjustment until FY 2009/10**. The FY 2008/09 budget is still being formulated but the authorities do not consider it feasible to undertake significant expenditure reductions currently. The primary surplus (according to Fund staff definitions) is expected to remain broadly unchanged in FY 2008/09 (see Table 5). The authorities stress the need for investment and other pro-growth spending initiatives in the new budget. Furthermore, they point out that designing and

implementing comprehensive reforms will necessarily require time. Noting the repeated deviations from budget targets in the past, they feel it more important, in terms of gaining credibility, to aim for a realistic budget target and achieve it than to be more ambitious and disappoint expectations.

C. Monetary and Exchange Rate Policy

23. **The key challenge currently is to stem capital outflows and reduce external vulnerabilities more generally while maintaining internal balance**. Reserve losses cannot be sustained indefinitely. The staff's balance of payments projections assume that a significant portion of the government's external debt service falling due in FY 2008/09 is refinanced through new borrowing. To the extent that this does not take place, reserve losses would be even larger —the authorities could usefully develop contingency plans to deal with any rollover pressures. Also, missing data on private sector obligations argues for caution in determining the appropriate level of reserves to target and adds urgency to reduce the current account deficit and stem capital outflows.

24. **Fiscal and financial sector considerations, however, pose constraints on the policy choice set**. Interest rate hikes will weaken financial institutions; in particular, security dealers holding fixed-rate debt. Monetary tightening also imposes greater debt-service costs on the budget, especially given the shift in debt management practices in recent years toward favoring variable rate instruments. On the other hand, currency depreciation can fuel inflation and increases the debt-to-GDP ratio.

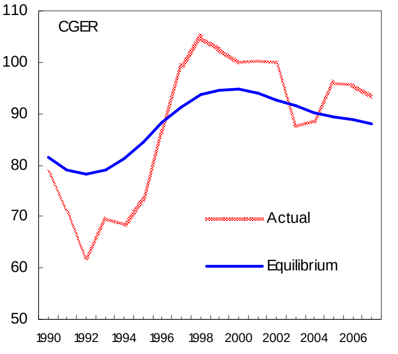
25. **A moderate interest rate increase is advisable, while letting the Jamaican dollar find its level in the face of pressures**. The recent period of stability in the foreign exchange market appears related, in part, to the inflows associated with the external sale of a major private enterprise, and so could be temporary. With the recent reduction of interest rates in the United States, a further moderate tightening in Jamaica may, in the end, suffice to contain further capital outflows and moderate inflation. At the same time, however, the current value of the Jamaican dollar is not far from its equilibrium, limiting the likelihood of a sustained fall in the exchange rate (Box 3). The greater durability of the fiscal deficit to exchange rate movements than to interest rate changes also argues against an unduly costly defense of the exchange rate.

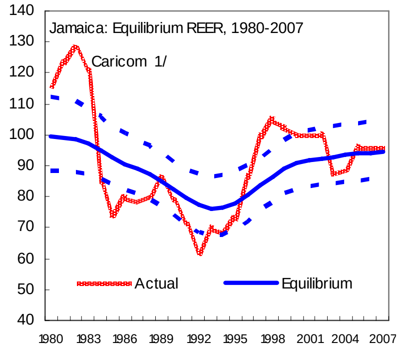
26. **The authorities stand ready to increase interest rates further if conditions warrant**. They emphasized that relative to the United States, where short-term interest rates have been declining, their stance already embodies significant tightening. Furthermore, they consider the recent interest rate hikes in Jamaica and brief nominal appreciation in December as signals of their readiness to flexibly use all of their instruments, in both directions, to achieve their policy objectives. They note, however, the need to keep in mind that sharp movements in the exchange rate have significant costs in a small open economy. The public, in particular, remains wary of financial volatility, as reflected in the low level of monetization in Jamaica.

Box 3. Jamaica: Exchange Rate Assessment

Jamaica's exchange rate regime is a managed float. The current level of the real effective exchange rate (REER) in Jamaica is broadly in line with fundamentals.

- **The current level of the real exchange rate is, within a margin of error, in line with the equilibrium**. Applying to Jamaica the coefficients of a cross-country cross-time study by the Fund's Consultative Group on Exchange Rate Issues (CGER), the REER was about 6½ percent above the equilibrium in 2007, within the standard forecast error of 12 percent. The CGER, however, did not include Jamaica in its sample, or explicitly account for tourism-related productivity differentials and terms of trade— both of which a model estimated by Cashin and Pineda (2008) that also includes Jamaica in the sample does. Coefficients from the latter study suggest Jamaica's REER is 2 percent above the equilibrium.

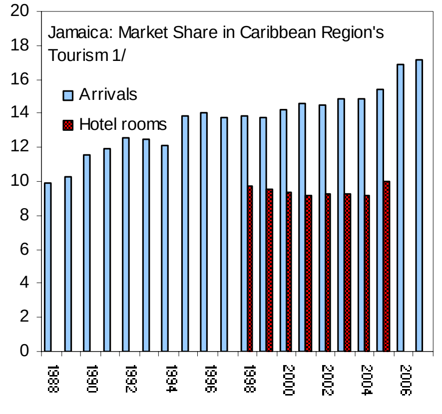


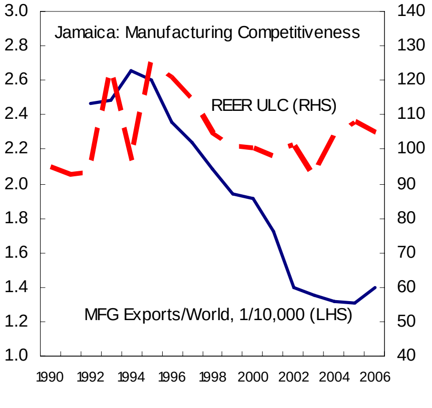


1/ Bands are the confidence intervals at the 90 percent level of confidence.

- **The current account deficit is expected to fall to its equilibrium level over the medium term**. Its level now reflects the impact of shocks, which the economy is in the process of adjusting to. Again, using the coefficients from the CGER exercise, Jamaica's expected 2012/13 current account deficit is in line with the calculated equilibrium of 7 percent of GDP. Cashin and Pineda confirm this finding in their sample.

- **Competitiveness indicators suggest the level of the exchange rate is appropriate**. Jamaica's market share of Caribbean tourism has been increasing and a manufacturing unit-labor-cost-based measure of the real exchange rate has been broadly stable, despite the recorded decline in manufacturing exports.

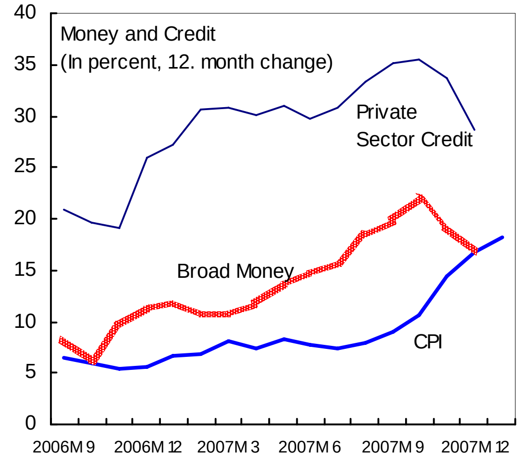




1/ Data for 2007 are from January to July 2007.

D. Financial Sector

27. **Notwithstanding the generally positive bank soundness indicators, the financial system is at risk, including from unregulated investment schemes**. Households have reportedly borrowed, in part, from banks to fund investments in these schemes. In this context, near 30-percent annual increases in *bank* credit growth are worrisome. The authorities note, however, that the collateral underlying bank credit to investors should limit risks to the financial system.



Jamaica: Banking System Indicators 1/

	2004	2005	2006	Dec. 2007
Loans to Deposits	50.1	55.0	56.2	63.5
NPL to Total Loans	3.0	2.9	2.6	2.3
Capital Adequacy Ratio	16.7	19.0	17.0	15.9
Pre-tax Profit Margin	22.1	26.5	24.8	26.7

1/ Commercial banks, building societies, merchant banks/finance companies and credit unions.

28. **The authorities have requested Fund technical assistance to strengthen the legal and regulatory framework for unregulated schemes**. The Financial Services Commission (FSC) has issued cease and desist orders to some entities, which has met with a series of court challenges. The authorities want to adapt international best practice to prevent schemes that are not in the public interest, while ensuring that legitimate investments can proceed (Box 4). Consistent with this request, the TA mission has recommended that the authorities focus on actions to prevent the flow of new money and safeguard already-invested funds in the schemes; adopt a regulatory framework for private investment clubs; and, strengthen existing regulations and enforcement powers.

29. **The weaker environment highlights the importance of addressing potential blind spots in financial sector monitoring and supervision**. Analytical information to quantify a variety of market risks for security dealers is limited—absence of information on external borrowings is particularly worrisome, given the risks of margin calls. Risks could also transmit from dealers to banks (or vice versa) in conglomerates that comprise both banks and dealers. However, the current segmented supervisory structure (between the BOJ and the FSC); gaps in apportioning responsibilities across supervisory agencies; and, insufficient technical collaborations risk creating supervisory gaps for the system as a whole.

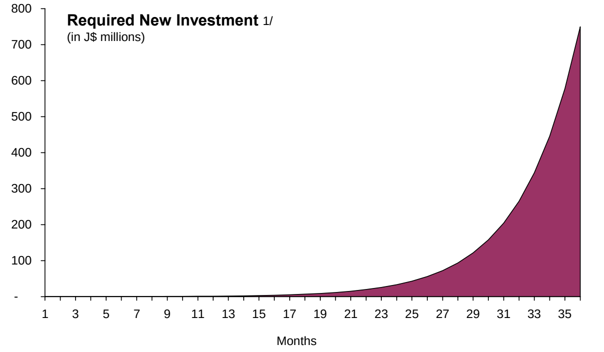
30. **Strengthening supervision is also a regional priority**. Unregulated investment schemes operating out of Jamaica are reportedly active elsewhere in the Caribbean. Furthermore, the same set of financial conglomerates dominate the Caribbean (Figure 3)

Box 4. Jamaica: Unregulated Investment Schemes and the Macroeconomy

- **There are currently over 35 unregulated alternative investment schemes**. The Caribbean Policy Research Institute (CAPRI), an independent think-tank, estimates that total investments in the schemes amount to 12½–25 percent of GDP.

- **The schemes have common characteristics**: (i) promised monthly returns of at least 10 percent; (ii) restrictions on withdrawals; and (iii) referrals of new members by existing clients.

- **These attributes, however, are also common to Ponzi schemes, which inevitably collapse**. Ponzi schemes do not undertake productive investments but use funds from newcomers to pay earlier entrants. Over time, however, the amounts due to old investors eventually exceed the new money the scheme can attract. Assuming, for example, a monthly return of 10 percent and roll-over rate of 30 percent, new investments would need to grow continuously by 30 percent per month, on average, just to keep up with payments.

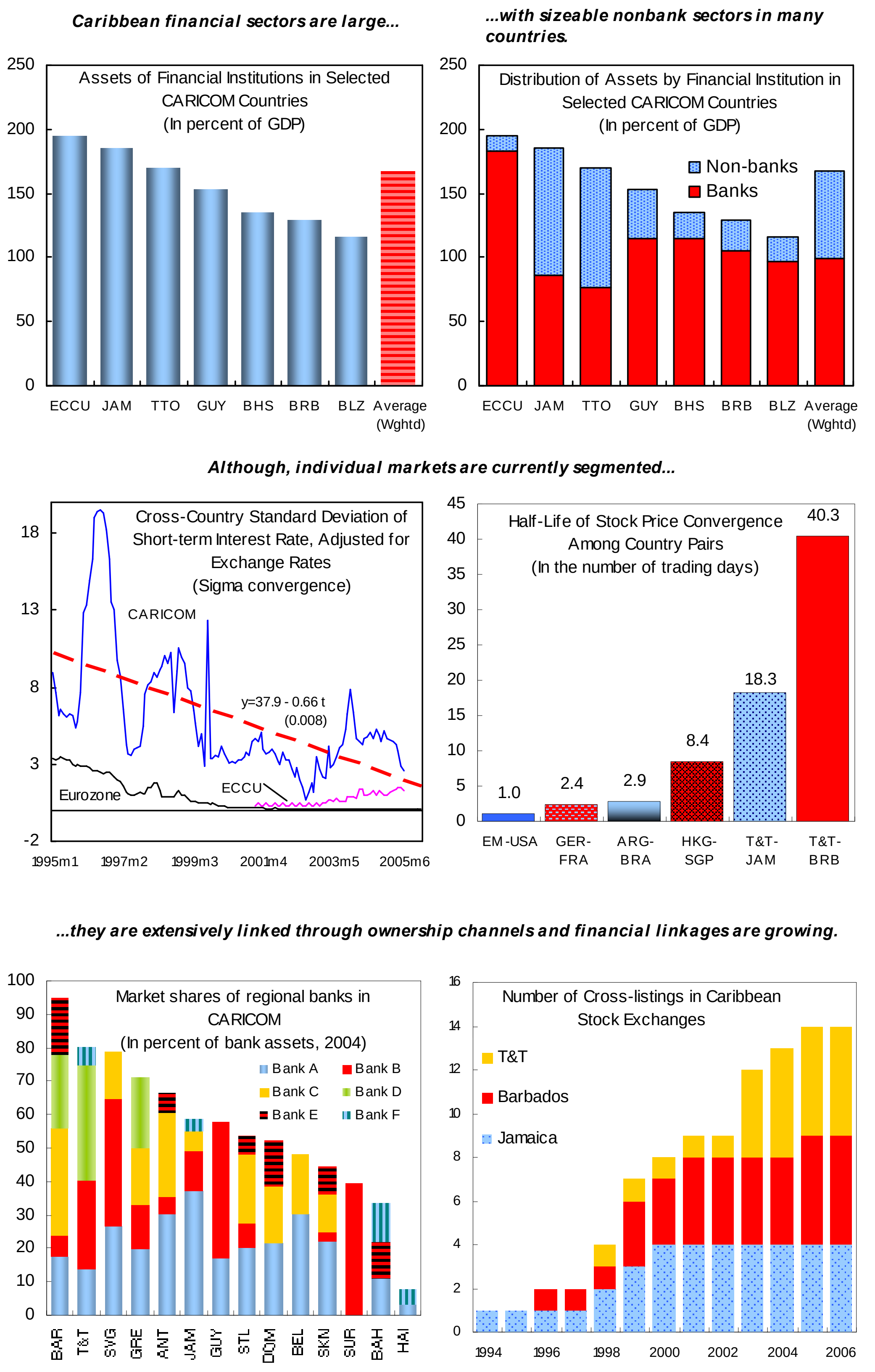


1/ IMF staff calculations. Assumes that all investments in the first six months of the scheme's operation are fully rolled over.

- **The macroeconomic impact is difficult to discern but could be significant**. On the surface, the schemes do not appear to be causing banking disintermediation as deposit and credit growth have been robust recently. Furthermore, following a 9 percent shift from household deposits to enterprises (which the schemes are likely to be classified as by individual banks) during 2001–05, deposit shares have remained broadly stable. Security dealers, however, do report losing customers to the schemes (analytical data on dealers is lacking). Indeed, to shield themselves from a possible freeze of their assets, the schemes could be exporting funds under their management abroad, which would be consistent with the weakening of the exchange rate and reserve losses. In the balance of payments, net unidentified private inflows are estimated to have decreased by US$0.6 billion in FY 2007–08. The counterpart to the loss of reserves could be security dealers' liabilities to the public (rather than banks' liabilities), which are not included in the monetary survey.

- **The schemes could have larger macroeconomic implications in future**. The collapse of pyramid schemes equivalent to about 50 percent of GDP in Albania in the late 1990s led to a sharp depreciation and increased inflation, as well as a large-scale civil disorder and a 2 percentage point fall in output. CAPRI considers the risk of social unrest limited in Jamaica because investors are middle-to-high income and appear aware of the risks. A collapse in personal wealth can, nevertheless impact on GDP. Assuming, for example, that the wealth effect on consumption is in the range of 3 to 6 percent and the marginal propensity to consume is 0.7 (broadly similar to the United States), the full loss of investments could reduce output by about 2¼–4½ percent of GDP.

Figure 3. Caribbean: Financial Sector



Sources: Country authorities; and Fund staff estimates.

and with regional integration, are likely to become organized less along purely jurisdictional lines. Regional supervisors will, therefore, be challenged to ensure that blind zones that can let shocks spread easily from one Caribbean country to another do not emerge.

III. Staff Appraisal

31. **The new authorities have ambitious plans to address the policy imperatives they inherited along with a much more difficult environment**. Jamaica's disappointing high-debt and low-growth experience accentuates the hazards it now faces in a world where growth in the United States, its largest economic partner, has slowed; lending risks have been repriced; and credit conditions have tightened. The new authorities are keenly aware that under these circumstances, securing continued economic stability and placing Jamaica on an improved growth trajectory require steadfast commitment to debt reduction. They also recognize the importance of taking difficult monetary and exchange rate policy actions when necessary, and strengthening financial sector resilience.

32. **The broad nature of the authorities' debt and fiscal agenda is welcome and fiscal adjustment plans should be fleshed out**. A multiplicity of factors has helped perpetuate the debt problem in the past; ranging from weaknesses in assigning fiscal responsibility to poor budget design, execution and monitoring; from financially hemorrhaging public enterprises to faustian wage bargains that neither yielded efficiency nor allowed public workers always to be paid adequately; from a grossly inefficient tax system to insufficiently transparent fiscal accounting practices. The new authorities have indicated that they are planning to address these issues. They have also underscored their intention to pursue a broader structural reform agenda, strengthen government effectiveness, and eliminate the budget deficit over the medium-term—to that end, it would be important to identify specific measures to increase revenues and reduce spending.

33. **The authorities' commitments to monetary and exchange rate flexibility and to addressing unregulated investment schemes are encouraging**. The use of all of its tools can help the central bank navigate through the current external turbulence and rising domestic price pressures. As regards the financial sector, ensuring that the core remains sound and limiting fraudulent activities, which could have important macroeconomic spillovers, are always important, but they could be critical now in the changed environment.

34. **The priority now is for the government to give concrete shape to all its initiatives**. The broad and ambitious character of the government's plans are appropriate, given the nature and scale of Jamaica's economic challenges. This same large scope of the plans, however, means that they have not all been fully fleshed out yet. The official international community can help provide appropriate technical and financial assistance as the authorities build domestic consensus behind their initiatives. The authorities will, however, also have to remain mindful that financial markets will be keenly monitoring the demonstration not only of their policy intentions, but also of the implementation.

35. **Striking the right balance between realism and ambition remains key**. A strong fiscal adjustment effort now, along with publicizing a comprehensive economic legislative agenda and timetable would be reassuring. They would reinforce the seriousness the

authorities attach to their plans. Improving the fiscal primary surplus by 1–1½ percent of GDP now would also demonstrate Jamaica's capacity to adjust rapidly to a deteriorating external environment, so as to ensure continued macroeconomic stability. The authorities are, however, also right in that realism in setting budget targets is important to dispel the past record of missed objectives.

36. **It is proposed that the next Article IV consultation take place on the standard 12-month cycle**.

Table 1. Jamaica: Selected Economic Indicators 1/

	2004/05	2005/06	2006/07	Prel. Est. 2007/08	Projections 2008/09	2009/10	2010/11	2011/12	2012/13
	(Annual percentage changes)								
GDP, prices, and employment									
Real GDP	0.4	2.0	2.4	1.0	2.7	2.8	3.1	3.3	3.5
Nominal GDP	10.9	17.0	10.0	13.2	20.4	12.8	11.6	10.4	9.8
Consumer price index (end of period)	13.2	11.2	8.0	18.1	11.5	9.3	7.5	6.3	6.0
Consumer price index (average)	12.8	14.8	7.4	12.1	17.2	9.7	8.3	6.8	6.1
Exchange rate (end of period, in J$/US$)	61.5	65.3	67.6	...	…	…	…	…	…
End-of-period REER (percent change, appreciation +)	5.2	4.1	-1.8	...	…	…	…	…	…
Unemployment rate (in percent)	12.2	11.6	10.8	...	…	…	…	…	…
	(In percent of GDP)								
Government operations									
Budgetary revenue	31.2	29.0	29.9	31.2	30.0	31.0	31.5	31.8	32.0
Budgetary expenditure	36.6	32.7	35.5	35.7	35.0	33.5	31.5	29.7	28.4
Primary expenditure	19.3	18.0	21.8	23.0	21.6	21.0	19.7	19.5	19.5
Interest payments	17.4	14.7	13.8	12.7	13.4	12.4	11.8	10.2	8.9
Budget balance	-5.4	-3.7	-5.6	-4.5	-5.0	-2.5	0.0	2.1	3.6
Of which: primary fiscal balance	11.9	11.0	8.1	8.2	8.4	10.0	11.8	12.3	12.5
Off-budget expenditure 2/	3.1	1.2	1.7	1.3	0.3	1.0	0.7	0.5	0.3
Overall fiscal balance	-8.6	-4.8	-7.3	-5.8	-5.3	-3.5	-0.7	1.6	3.3
Public debt 3/	139.6	133.0	134.3	128.3	122.4	120.3	115.2	108.3	100.5
External sector									
Current account balance	-7.5	-11.6	-11.7	-15.4	-13.4	-11.4	-9.6	-8.1	-7.0
Of which: exports of goods, f.o.b.	17.5	17.8	20.8	20.8	21.1	21.3	21.2	21.6	22.0
Of which: imports of goods, f.o.b.	41.2	44.4	48.2	49.9	48.4	47.6	46.9	46.5	45.9
Net international reserves (in millions of US$)	1,902	2,078	2,329	1,899	1,706	1,767	2,032	2,139	2,358
	(Changes in percent of beginning of period broad money)								
Money and credit									
Net foreign assets	7.5	1.7	4.2	-4.0	-1.6	…	…	…	…
Net domestic assets	2.7	6.9	6.6	25.2	18.0	…	…	…	…
Of which: credit to the central government	0.5	-5.6	-3.5	6.7	4.6	…	…	…	…
Broad money	10.3	8.6	10.8	21.2	16.4	…	…	…	…
Velocity (ratio of GDP to broad money)	2.6	2.8	2.8	2.6	2.7	…	…	…	…
Memorandum items:									
Nominal GDP (in billions of J$)	550	643	707	801	964	1,087	1,214	1,340	1,472
Exchange rate (average, J$/US$)	61.4	63.2	66.3	…	…	…	…	…	…

Sources: Jamaican authorities; and Fund staff estimates and projections.

1/ Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.
2/ Includes debt issued to BOJ to cover its cash losses, and debt related to off-budget projects financed initially by the private sector.
3/ Including PetroCaribe debt.

Table 2. Jamaica: Summary of Central Government Operations
(In billions of Jamaican dollars)

				Prel. Est.	Projections				
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Budgetary revenue and grants	171.5	186.7	211.3	249.7	289.0	337.2	382.1	426.7	471.0
Tax	153.0	165.7	192.5	225.2	260.3	303.8	344.8	385.5	425.8
Nontax	14.4	20.3	17.3	21.4	25.1	29.2	32.6	36.0	39.5
Grants	4.2	0.7	1.5	3.1	3.6	4.2	4.6	5.1	5.6
Budgetary expenditure	201.4	210.4	251.2	286.1	337.6	363.8	382.4	398.3	418.4
Primary expenditure	106.0	116.0	153.9	184.1	208.0	228.8	238.8	261.2	286.8
Wage and salaries	63.5	63.1	78.7	86.7	98.1	107.4	112.7	121.9	133.9
Other expenditure	32.1	40.8	48.0	64.8	73.3	81.0	84.1	92.9	102.0
Capital expenditure	10.4	12.0	27.2	32.7	36.6	40.5	42.0	46.4	50.9
Interest 1/	95.4	94.4	97.3	102.0	129.5	134.9	143.6	137.2	131.6
Budget balance	-29.9	-23.7	-39.9	-36.4	-48.6	-26.6	-0.3	28.3	52.6
Of which : primary budget balance	65.5	70.7	57.4	65.6	80.9	108.3	143.2	165.5	184.2
Off-budget expenditure	17.3	7.4	11.9	10.3	2.6	10.9	8.7	6.4	4.3
BoJ cash losses 2/	13.4	7.4	11.9	8.7	2.6	10.9	8.7	6.4	4.3
Deferred financing 3/	3.9	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0
Overall balance	-47.2	-31.2	-51.8	-46.8	-51.2	-37.6	-9.0	21.9	48.3
Financing	47.2	31.2	51.8	46.8	51.2	37.6	9.0	-21.9	-48.3
External financing	8.9	20.7	-27.3	-17.4	16.7	15.7	15.3	14.9	14.5
Domestic Financing	37.1	10.5	62.5	35.3	34.5	21.9	-6.3	-36.9	-62.8
Banking system	1.0	-11.9	-8.0	16.8	14.0	8.3	10.9	8.7	6.4
Other	36.1	22.4	70.5	18.4	20.5	13.6	-17.3	-45.6	-69.2
Divestment + deposit drawdown	1.3	0.0	16.6	28.9	0.0	0.0	0.0	0.0	0.0

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ Due to changes in procedures, in FY 2008/09 there are two payments to BoJ on account of debt issued by the central government to compensate for the costs of the 1990s financial crisis.

2/ Refers to operating losses of the BoJ not covered by the BoJ Special Issue Bonds.

3/ Debt issued upon assuming public investment projects carried out by the private sector.

Table 3. Jamaica: Summary of Central Government Operations
(In percent of GDP)

	2004/05	2005/06	2006/07	Prel. Est. 2007/08	Projections 2008/09	2009/10	2010/11	2011/12	2012/13
Budgetary revenue and grants	31.2	29.0	29.9	31.2	30.0	31.0	31.5	31.8	32.0
Tax	27.8	25.8	27.2	28.1	27.0	27.9	28.4	28.8	28.9
Nontax	2.6	3.2	2.5	2.7	2.6	2.7	2.7	2.7	2.7
Grants	0.8	0.1	0.2	0.4	0.4	0.4	0.4	0.4	0.4
Budgetary expenditure	36.6	32.7	35.5	35.7	35.0	33.5	31.5	29.7	28.4
Primary expenditure	19.3	18.0	21.8	23.0	21.6	21.0	19.7	19.5	19.5
Wage and salaries	11.6	9.8	11.1	10.8	10.2	9.9	9.3	9.1	9.1
Other expenditure	5.8	6.4	6.8	8.1	7.6	7.5	6.9	6.9	6.9
Capital expenditure	1.9	1.9	3.8	4.1	3.8	3.7	3.5	3.5	3.5
Interest 1/	17.4	14.7	13.8	12.7	13.4	12.4	11.8	10.2	8.9
Budget balance	-5.4	-3.7	-5.6	-4.5	-5.0	-2.5	0.0	2.1	3.6
Of which : primary budget balance	11.9	11.0	8.1	8.2	8.4	10.0	11.8	12.3	12.5
Off-budget expenditure	3.1	1.2	1.7	1.3	0.3	1.0	0.7	0.5	0.3
BoJ cash losses 2/	2.4	1.2	1.7	1.1	0.3	1.0	0.7	0.5	0.3
Deferred financing 3/	0.7	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Overall balance	-8.6	-4.8	-7.3	-5.8	-5.3	-3.5	-0.7	1.6	3.3
Budgetary principal payment	24.3	21.8	23.3	13.0	15.4	14.4	16.2	18.1	18.2
Domestic	18.9	16.6	14.9	8.3	10.7	12.6	14.8	14.2	14.2
External	5.4	5.1	8.4	4.6	4.6	1.7	1.4	3.9	4.0
Memorandum items:									
Deposit draw-down (in percent of GDP)	0.0	0.0	2.3	3.0	0.0	0.0	0.0	0.0	0.0
Public debt 4/	139.6	133.0	134.3	128.3	122.4	120.3	115.2	108.3	100.5
of which: cumulative PetroCaribe debt	0.0	0.1	2.3	4.1	6.5	8.8	10.8	12.3	13.6
Gross financing (in percent of GDP)	32.9	26.6	30.6	18.8	20.7	17.8	17.0	16.5	15.0
GDP (in billions of J$)	550	643	707	801	964	1087	1214	1340	1472

Sources: Jamaican authorities and Fund staff estimates and projections.

1/ Due to changes in procedures, in FY 2008/09 there are two payments to BoJ on account of debt issued by the central government to compensate for the costs of the 1990s financial crisis.
2/ Refers to operating losses of the BoJ not covered by the BoJ Special Issue Bonds.
3/ Debt issued upon assuming public investment projects carried out by the private sector.
4/ Including debt assumed from public entities, plus guaranteed public entity debt, plus PetroCaribe debt.

Table 4. Jamaica: Summary of the Public Debt 1/

	2004/05	2005/06	2006/07	Prel. Est. 2007/08	Projections 2008/09	2009/10	2010/11	2011/12	2012/13
				(In billions of Jamaican dollars)					
Public debt stock	768	856	950	1027	1180	1308	1398	1451	1478
Government debt	727	798	866	913	1013	1087	1127	1132	1111
Domestic	449	483	514	560	613	644	646	617	562
Of which : US$ linked	85	77	75	79	86	91	96	100	103
External	278	315	352	353	400	443	481	515	549
Official	128	121	125	122	132	142	149	154	160
Commercial	150	194	227	230	267	302	333	361	389
PetroCaribe external debt	0	1	16	34	65	99	134	168	203
Government guaranteed debt	41	57	67	81	102	121	137	151	165
External	32	48	56	68	86	101	114	125	136
Domestic	8	9	12	13	16	20	23	26	28
Domestic currency debt	373	415	451	494	543	572	573	543	487
Foreign currency debt	310	364	424	454	551	644	730	809	888
US$ linked debt	85	77	75	79	86	91	96	100	103
				(In percent of GDP)					
Public debt stock	139.6	133.0	134.3	128.3	122.4	120.3	115.2	108.3	100.5
Government debt	132.2	124.1	122.5	114.0	105.0	100.0	92.9	84.5	75.5
Domestic 2/	81.7	75.1	72.7	70.0	63.6	59.2	53.2	46.0	38.2
Of which : US$ linked	15.5	12.0	10.6	9.9	8.9	8.4	7.9	7.4	7.0
External	50.5	49.0	49.8	44.0	41.5	40.8	39.7	38.4	37.3
Official	23.2	18.8	17.6	15.3	13.7	13.0	12.2	11.5	10.9
Commercial	27.3	30.1	32.2	28.8	27.7	27.7	27.4	26.9	26.4
PetroCaribe external debt 3/	0.0	0.1	2.3	4.2	6.8	9.1	11.0	12.6	13.8
Government guaranteed debt	7.4	8.9	9.5	10.1	10.6	11.2	11.3	11.3	11.2
External	5.8	7.5	7.9	8.5	8.9	9.3	9.4	9.3	9.2
Domestic	1.5	1.4	1.6	1.6	1.6	1.8	1.9	1.9	1.9
Domestic currency debt	67.8	64.5	63.7	61.7	56.3	52.6	47.2	40.5	33.1
Foreign currency debt	56.3	56.6	60.0	56.7	57.2	59.2	60.1	60.3	60.3
US$ linked debt	15.5	12.0	10.6	9.9	8.9	8.4	7.9	7.4	7.0
Change in the debt/GDP ratio	-1.9	-6.6	1.3	-6.0	-5.9	-2.1	-5.1	-6.9	-7.8
Memorandum items:									
Total debt (US$ billion)	12.5	13.1	14.1	14.5	15.3	15.9	16.2	16.1	15.9
Of which: foreign currency debt	5.0	5.6	6.3	6.4	7.1	7.8	8.4	9.0	9.5
Government guaranteed debt issues (US$ million)	0	280	315	129	164	115	90	70	70
GDP (J$ billion)	550	643	707	801	964	1087	1214	1340	1472

Sources: Jamaican authorities, Fund staff estimates and projections.

1/ Central government debt including debt assumed from public entities, plus public guaranteed debt, plus PetroCaribe debt. Cash-flow savings from the PetroCaribe agreement with Venezuela are managed by an extrabudgetary fund that lends to both budgetary and off-budget entities.

2/ In 2008/09 includes a projected debt takeover from the Sugar Company of Jamaica amounting to J$11.7 billion. Starting in 2009/10 includes annually 0.3 percent of GDP for contingencies and assumed domestic debts.

3/ Total PetroCaribe lending to the central government amounts to 1.2 percent of GDP (including project lending and holdings of government bonds). A consolidation of Petrocaribe and central government debt would result in a debt-to-GDP ratio estimate as of end of FY 2007/08 of 127.1 percent. The projections do not incorporate any assumptions about further lending to the central government by the Petrocaribe Fund.

Table 5. Jamaica: Alternative Fiscal Presentations FY 2008/09–FY 2010/11

	Prel. Est. 2007/08	2008/09	2009/10	2010/11	Prel. Est. 2007/08	2008/09	2009/10	2010/11
	(In J$ billion)				(In percent of GDP)			
Authorities' presentation								
Overall balance	-44.8	-43.7	-27.0	-0.3	-5.6	-4.5	-2.5	0.0
Divestment	4.5	0.0	0.0	0.0	0.6	0.0	0.0	0.0
Overall balance excl. divestment	-49.3	-43.7	-27.0	-0.3	-6.2	-4.5	-2.5	0.0
Interest	102.4	123.8	134.9	143.6	12.8	12.8	12.4	11.8
Primary balance	53.0	80.1	107.9	143.2	**6.6**	**8.3**	**9.9**	**11.8**
IMF presentation								
Overall balance excl. divestment	-36.4	-48.6	-26.6	-0.3	-4.5	-5.0	-2.5	0.0
Interest 1/	102.0	129.5	134.9	143.6	12.7	13.4	12.4	11.8
Primary balance	65.6	80.9	108.3	143.2	**8.2**	**8.4**	**10.0**	**11.8**
Adjustments to primary balance 2/								
Authorities' primary balance presentation	53.0	80.1	107.9	143.2	6.6	8.3	9.9	11.8
plus deferred financing	3.9	0.8	0.4	0.0	0.5	0.1	0.0	0.0
plus consolidated fund	3.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0
plus PetroCaribe	2.9	0.0	0.0	0.0	0.4	0.0	0.0	0.0
plus debt takeovers	2.7	0.0	0.0	0.0	0.3	0.0	0.0	0.0
IMF primary balance presentation	65.6	80.9	108.3	143.2	8.2	8.4	10.0	11.8
Memorandum item:								
GDP, in J$ billion					800.5	964.0	1087.3	1214.0

1/ Interest payments to the BoJ paid with government securities are recorded at the time of the securities' issuance. Starting in 2008/09, the government pays interest to the BoJ concurrently, as opposed to through debt issuance the following fiscal year. This results in two interest payments to the BoJ in 2008/09 in the IMF presentation.

2/ In the IMF presentation, expenditures are recorded in the year of execution. The authorities' presentation includes expenditures executed in earlier fiscal years. For FY 2007/08, such amounts are J$12.5 billion; for FY 2008/09, such amounts are J$0.8 billion; and in FY 2009/10, such amounts are J$0.4 billion.

Table 6. Jamaica: Summary Balance of Payments
(In millions of U.S. dollars)

				Prel. Est.	Projections				
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Current account	-671	-1,186	-1,253	-1,770	-1,742	-1,559	-1,385	-1,234	-1,124
Trade balance	-2,124	-2,716	-2,929	-3,341	-3,551	-3,577	-3,696	-3,774	-3,839
Exports (f.o.b.)	1,567	1,809	2,220	2,387	2,750	2,912	3,046	3,288	3,550
Imports (f.o.b.)	3,691	4,524	5,149	5,727	6,301	6,489	6,742	7,062	7,388
Fuel (cif)	987	1,558	1,670	2,020	2,504	2,575	2,665	2,779	2,910
Exceptional imports (including FDI-related)	316	281	698	651	577	579	619	685	719
Other	2,388	2,685	2,781	3,057	3,220	3,335	3,457	3,598	3,759
Services (net)	570	643	599	470	626	756	933	1,079	1,198
Transportation	-182	-290	-451	-556	-557	-573	-604	-645	-685
Travel	1,178	1,372	1,598	1,578	1,771	1,953	2,209	2,450	2,659
Of which: tourism receipts	1,457	1,619	1,880	1,874	2,082	2,278	2,549	2,806	3,032
Other services	-426	-439	-548	-553	-588	-624	-672	-727	-776
Income (net)	-626	-702	-715	-917	-964	-1,035	-1,046	-1,094	-1,176
Current transfers (net)	1,508	1,589	1,793	2,017	2,147	2,297	2,425	2,555	2,693
Government (net)	175	130	144	142	76	84	88	88	88
Private (net)	1,333	1,459	1,649	1,875	2,071	2,212	2,337	2,468	2,605
Capital and financial account	1,004	1,362	1,504	1,340	1,549	1,620	1,650	1,341	1,343
Capital account (net)	2	-3	1	-5	-5	-1	-1	-1	-1
Financial account (net)	1,002	1,366	1,503	1,344	1,554	1,621	1,651	1,341	1,344
Direct investment (net) 3/	538	608	776	1,276	792	772	1,403	830	874
Central government (net)	260	334	-413	-251	225	197	182	169	159
Other official (net) 1/ 2/	82	227	346	359	538	473	434	396	379
Of which: PetroCaribe	…	12	231	230	374	358	344	326	309
Government refinancing deposits	…	-250	-100	350	0	0	0	0	
Private (net)	204	197	893	-390	-1	180	-368	-54	-68
Net inflows to commercial banks	127	216	179	-198	0	0	0	0	0
Other flows 4/	78	-19	715	-193	-1	180	-368	-54	-68
Overall balance/change in NFA (+ increase)	333	177	251	-431	-193	61	265	107	219
Memorandum items:									
Net international reserves	1,902	2,078	2,329	1,899	1,706	1,767	2,032	2,139	2,358
(in weeks of imports of GNFS)	18	17	17	13	10	10	11	11	12
Current account (in percent of GDP)	-7	-12	-12	-15	-13	-11	-10	-8	-7
Exports of goods (in percent change)	7	15	23	7	15	6	5	8	8
Imports of goods (in percent change)	12	23	14	11	10	3	4	5	5
Tourism receipts (in percent change)	4	11	16	0	11	9	12	10	8
GDP (in millions of U.S. dollars)	8,949	10,183	10,673	11,488	13,020	13,645	14,381	15,199	16,109

Sources: Jamaican authorities; and Fund staff estimates.

1/ In 2006/07 and beyond, consists of borrowing by public entities guaranteed by the government.
2/ Includes counterpart to the inflow for the government's pre-financing in 2005/06.
3/ In 2007/08 includes the Petrojam sale ($65 million) and the first payment for the sale of Lascelles rum factory ($420 million). The second payment for Lascelles ($580) is included in 2010/11.
4/ A large part of the proceeds (in two installments) for the sale of Lascelles rum factory (privately owned) are assumed to be held abroad.

Table 7. Jamaica: Summary Accounts of the Bank of Jamaica 1/

	2004/05	2005/06	2006/07	Prel. Est. 2007/08	Proj. 2008/09
	(In billions of Jamaican dollars)				
End-of-period stocks 1/					
Net international reserves	**118**	**136**	**158**	**135**	**131**
Net domestic assets	**-76**	**-92**	**-106**	**-74**	**-63**
Net claims on public sector	95	97	97	105	113
Of which: on central government 2/	78	55	45	56	70
Net credit to commercial banks	-13	-11	-11	-11	-13
Net credit to other financial institutions	-1	-1	-1	-1	-1
Open market operations	-144	-157	-166	-134	-118
Other items net (incl. valuation adj.)	-14	-20	-25	-32	-43
Base money	**42**	**44**	**52**	**61**	**69**
Currency in circulation	24	26	31	36	41
Liabilities to commercial banks	18	17	21	25	28
Fiscal year flows 1/					
Net international reserves	**22.1**	**17.9**	**22.2**	**-22.8**	**-3.5**
Net domestic assets	**-16.7**	**-15.9**	**-14.0**	**32.1**	**11.4**
Net claims on public sector	19.3	1.7	0.2	7.9	8.3
Of which: on central government 2/	9.3	-22.7	-9.9	10.7	14.0
Net credit to commercial banks	1.1	1.7	0.0	-0.4	-1.9
Net credit to other financial institutions	-0.1	0.0	-0.3	-0.2	-0.2
Open market operations	-35.6	-13.5	-8.3	32.0	15.5
Other items net (incl. valuation adj.)	-1.4	-5.9	-5.6	-7.3	-10.3
Base money	5.5	**2.0**	**8.2**	**9.2**	**7.9**
Currency in circulation	2.9	2.7	5.0	5.0	4.7
Liabilities to commercial banks	2.5	-0.7	3.3	4.2	3.2
	(Change in percent of beginning-of-period M3)				
Net international reserves	**61.1**	**42.9**	**51.0**	**-44.0**	**-5.7**
Net domestic assets	**-46.0**	**-38.2**	**-32.1**	**61.9**	**18.6**
Net claims on public sector	53.4	4.1	0.4	15.3	13.6
Net credit to commercial banks	3.0	4.1	0.1	-0.8	-3.1
Net credit to other financial institutions	-0.3	0.0	-0.8	-0.3	-0.3
Open market operations	-98.3	-32.4	-19.1	61.7	25.4
Other items net (incl. valuation adj.)	-3.8	-14.1	-12.7	-14.0	-16.9
Base money	**15.1**	**4.7**	**18.8**	**17.8**	**12.9**
Currency in circulation	8.1	6.4	11.4	9.7	7.6
Liabilities to commercial banks	7.0	-1.7	7.5	8.2	5.3
Memorandum items:					
Change in net claims on the central government (percent of GDP)	1.7	-3.5	-1.4	1.3	1.5
Net international reserves (U.S. millions)	1,915	2,076	2,335	1,899	1,706

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Fiscal year runs from April 1 to March 31.
2/ Includes net unclassified and BoJ operating loss from the previous fiscal year.

Table 8. Jamaica: Summary Monetary Survey 1/

	2004/05	2005/06	2006/07	Prel. Est. 2007/08	Proj. 2008/09
	(In billions of Jamaican dollars)				
End-of-period stocks 1/					
Net foreign assets	**116**	**120**	**130**	**120**	**115**
Net domestic assets	**94**	**108**	**123**	**187**	**242**
Net claims on public sector	179	191	194	206	214
Of which: central government 2/	148	136	128	145	159
Open market operations	-110	-116	-124	-108	-87
Credit to private sector	93	106	139	183	220
Of which: foreign currency	33	36	47	62	79
Other 3/	-68	-73	-85	-94	-105
Liabilities to private sector (M3)	**210**	**229**	**253**	**307**	**357**
Money supply (M2)	139	154	175	205	238
Foreign currency deposits	71	75	78	102	119
Fiscal year flows 1/					
Net foreign assets	**14.4**	**3.7**	**9.6**	**-10.2**	**-4.8**
Net domestic assets	**5.2**	**14.5**	**15.0**	**63.8**	**55.1**
Net claims on public sector 2/	13.8	12.5	2.8	12.1	8.3
Of which: central government	1.0	-11.9	-8.0	16.8	14.0
Open market operations	-26.9	-5.7	-8.7	16.6	21.1
Credit to private sector	13.0	13.1	32.6	44.0	37.5
Of which: foreign currency	5.9	3.5	10.5	14.6	16.9
Other 3/	5.3	-5.4	-11.7	-8.8	-11.7
Liabilities to private sector (M3)	**19.6**	**18.2**	**24.6**	**53.6**	**50.3**
Money supply (M2)	14.5	14.2	21.8	29.5	33.1
Foreign currency deposits	5.1	3.9	2.9	24.1	17.2
	(Change in percent of beginning-of-period M3)				
Net foreign assets	**7.5**	**1.7**	**4.2**	**-4.0**	**-1.6**
Net domestic assets	**2.7**	**6.9**	**6.6**	**25.2**	**18.0**
Net claims on public sector 2/	7.2	5.9	1.2	4.8	2.7
Of which: central government	0.5	-5.6	-3.5	6.7	4.6
Open market operations	-14.1	-2.7	-3.8	6.5	6.9
Credit to private sector	6.8	6.2	14.3	17.4	12.2
Of which: foreign currency	3.1	1.7	4.6	5.8	5.5
Other 3/	2.8	-2.6	-5.1	-3.5	-3.8
Liabilities to private sector (M3)	**10.3**	**8.6**	**10.8**	**21.2**	**16.4**
Memorandum items:					
Monetary base (J$ Millions)	41.6	43.6	51.8	57.7	65.3
M3/monetary base	5.1	5.2	4.9	5.2	5.2
Net foreign assets (US$ Millions)	1895	1841	1921	1542	1438
M3 velocity	2.6	2.8	2.8	2.6	2.7

Sources: Bank of Jamaica; and Fund staff estimates and projections.

1/ Fiscal year runs from April 1 to March 31.
2/ Includes Bank of Jamaica operating balance.
3/ Includes net credit to nonbank financial institutions, capital accounts, valuation adjustment, securities sold under repurchase agreements and net unclassified assets.

Table 9. Jamaica: Selected Vulnerability Indicators

	2003/04	2004/05	2005/06	2006/07 1/	Prel. Est. 2007/08
Key economic and market indicators					
Real GDP growth (in percent)	1.8	0.4	2.0	2.4	1.0
CPI inflation (period average, in percent)	12.6	12.8	14.8	7.4	12.1
Short-term (ST) interest rate (in percent)	22.9	14.7	13.0	12.3	12.4
EMBI secondary market spread (bps, end of period)	551	405	301	320	522
Exchange rate NC/US$ (end of period)	60.9	61.5	65.3	67.6	...
External sector					
Exchange rate regime	Managed float				
Current account balance (percent of GDP)	-6.9	-7.5	-11.6	-11.7	-15.4
Net FDI inflows (percent of GDP)	7.1	6.0	6.0	7.3	11.1
Exports (percentage change of US$ value, GNFS)	11.0	5.1	9.5	15.5	3.0
Real effective exchange rate (2000=100; end of period)	88.1	92.7	96.5	94.8	…
Gross international reserves (GIR) in US$billion	1.6	1.9	2.4	2.6	1.9
GIR in percent of ST government debt at remaining maturity (RM) 2/	560.4	396.4	452.5	291.6	362.8
GIR in percent of ST government debt at RM and banks' FX deposits. 2/	97.2	112.6	111.6	130.0	85.7
Net international reserves (NIR) in US$billion	1.6	1.9	2.1	2.3	1.9
Total gross external government debt (ED) in percent of GDP 2/	54.4	56.3	54.8	58.8	55.6
Of which: ST external debt (original maturity, in percent of total ED)	0.0	0.0	0.0	0.0	1.0
ED to foreign official sector (in percent of total ED)	44.2	41.2	33.3	29.4	26.9
Total gross external debt in percent of exports of GNFS	123.1	130.6	132.0	128.7	127.1
Gross external debt of domestic private sector (in percent of total)	...	...	...	...	...
Gross external financing requirement (in US$billion) 3/	0.8	1.2	1.7	2.2	2.3
Public sector (PS) 4/					
Overall balance (percent of GDP)	-8.1	-8.6	-4.8	-7.3	-5.8
Primary balance (percent of GDP)	12.1	11.9	11.0	8.1	8.2
Gross PS financing requirement (in percent of GDP) 5/	28.9	32.9	26.6	30.6	18.8
Public sector gross debt (PSGD, in percent of GDP) 5/	143.7	139.6	133.0	134.3	128.3
Of which: Exposed to rollover risk (in percent of total PSGD) 6/	16.6	17.1	11.9	13.2	13.7
Exposed to exchange rate risk (in percent of total PSGD) 7/	53.7	51.4	51.5	52.6	51.9
Exposed to interest rate risk (in percent of total PSGD) 8/	36.1	34.5	39.9	42.7	43.0
Public sector net debt (in percent of GDP)	126.0	121.8	117.7	121.9	114.3
Financial sector (FS) 9/					
Capital adequacy ratio (in percent)	14.0	17.7	17.9	16.1	14.5
NPLs in percent of total loans	3.1	2.7	2.3	2.2	2.0
Provisions in percent of NPLs	125.0	135.7	131.8	125.8	127.8
Return on average assets (in percent)	4.3	3.0	3.7	3.5	3.7
Return on equity (in percent)	...	...	...	...	...
FX deposits held by residents (in percent of total deposits)	38.1	38.8	39.5	37.8	38.2
FX loans to residents (in percent of total loans, net of provisions)	39.0	41.3	42.7	40.8	41.7
Net open forex position (in percent of capital) 10/	...	...	...	...	...
Public sector debt held by FS (percent of total FS assets) 11/	32.7	24.6	23.9	22.9	22.0
Credit to private sector (percent change)	44.8	19.3	16.9	25.9	28.6
Memorandum item:					
Nominal GDP in billions of U.S. dollars	8.3	8.9	10.2	10.7	11.5

Sources: Bank of Jamaica; Ministry of Finance; STATIN; and Fund staff estimates and projections.

1/ Staff estimates, projections, or latest available observations.
2/ Only government external debt. Private sector external debt unavailable.
3/ Current account deficit plus amortization of external debt.
4/ Public sector covers central government only.
5/ FY 2006/07 debt reflects a US$350 million bond issued in March 2007 for pre-financing for FY 2007/08.
6/ ST debt and maturing medium- and long-term debt, domestic and external, excluding external debt to official creditors.
7/ Debt in foreign currency or linked to the exchange rate, domestic and external, excluding external debt on concessional terms.
8/ ST debt and maturing medium-and long-term debt at variable interest rates, domestic and external.
9/ Financial sector includes commercial banks only. Data in calendar year.
10/ Sum of on-and off-balance sheet exposure.
11/ Excludes Bank of Jamaica securities.

Table 10. Jamaica: Public Sector Debt Sustainability Framework, 2001/02–2012/13

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	primary balance 9/
1 **Baseline: Public sector debt 1/**	**143.0**	**141.5**	**139.6**	**133.0**	**134.3**	**128.3**	**122.4**	**120.3**	**115.2**	**108.3**	**100.5**	**3.7**
Government debt 1/	139.3	134.4	132.2	124.1	122.5	114.0	105.0	100.0	92.9	84.5	75.5	
Of which: foreign-currency denominated	63.5	69.6	66.0	61.1	62.7	58.1	57.1	58.3	58.6	58.5	58.1	
Government guaranteed debt 1/	3.7	7.2	7.4	9.0	11.8	14.3	17.3	20.3	22.3	23.8	25.0	
2 Change in public sector debt	10.0	-4.9	-2.1	-8.2	-1.6	-8.5	-9.0	-5.1	-7.1	-8.4	-9.0	
3 Identified debt-creating flows (4+7+12)	-0.2	1.6	-6.7	-11.8	-3.1	-9.2	-13.8	-9.5	-10.4	-10.9	-11.1	
4 Primary deficit	-5.2	-12.1	-11.9	-11.0	-8.1	-8.2	-8.4	-10.0	-11.8	-12.3	-12.5	
5 Revenue and grants	28.1	30.3	31.2	29.0	29.9	31.2	30.0	31.0	31.5	31.8	32.0	
6 Primary (noninterest) expenditure	22.9	18.2	19.3	18.0	21.8	23.0	21.6	21.0	19.7	19.5	19.5	
7 Automatic debt dynamics 2/	5.0	13.4	5.0	-0.8	5.0	-1.6	-5.9	0.5	1.4	1.5	1.4	
8 Contribution from interest rate/growth differential 3/	3.2	-3.5	4.3	-4.8	2.7	-1.6	-5.9	0.5	1.4	1.5	1.4	
9 *Of which:* contribution from real interest rate	5.8	-1.3	4.8	-2.4	5.6	-0.5	-3.3	3.1	4.2	4.3	4.1	
10 *Of which:* contribution from real GDP growth	-2.6	-2.2	-0.5	-2.4	-2.9	-1.1	-2.6	-2.6	-2.8	-2.8	-2.7	
11 Contribution from exchange rate depreciation 4/	1.8	16.8	0.7	4.0	2.3	...	...	...	...	...	...	
12 Other identified debt-creating flows	0.0	0.3	0.2	0.0	0.0	0.6	0.5	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.0	0.3	0.2	0.0	0.0	0.6	0.5	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 5/	10.2	-6.5	4.6	3.6	1.5	0.7	4.9	4.4	3.3	2.5	2.1	
Public sector debt-to-revenue ratio 1/	509.4	467.8	447.4	458.3	449.4	411.3	408.3	387.9	366.0	340.2	313.9	
Gross financing need 6/	31.6	27.8	32.9	26.6	30.6	18.8	20.7	17.8	17.0	16.5	15.0	
in billions of U.S. dollars	2.6	2.3	2.9	2.7	3.3	2.2	2.7	2.4	2.4	2.5	2.4	
Scenario with key variables at their historical averages 7/						**128.3**	**131.7**	**133.8**	**133.9**	**132.7**	**130.9**	**5.3**
Scenario with no policy change (constant primary balance) in 2005-2010						**128.3**	**121.5**	**120.9**	**119.4**	**116.6**	**112.9**	**3.2**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	2.2	1.8	0.4	2.0	2.4	1.0	2.7	2.8	3.1	3.3	3.5	
Average nominal interest rate on public debt (in percent) 8/	12.7	15.7	14.3	13.0	12.2	11.8	14.2	13.3	13.2	12.2	11.6	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	5.1	-0.7	3.8	-1.7	4.8	-0.3	-3.0	3.6	4.9	5.3	5.5	
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	-4.0	-21.9	-0.9	-5.8	-3.4	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	7.6	16.5	10.5	14.7	7.4	12.1	17.2	9.7	8.3	6.8	6.1	
Growth of real primary spending (deflated by GDP deflator, in percent)	19.0	-19.0	6.5	-4.6	23.5	6.7	-3.6	0.2	-3.7	2.4	3.5	
Primary deficit	-5.2	-12.1	-11.9	-11.0	-8.1	-8.2	-8.4	-10.0	-11.8	-12.3	-12.5	

1/ Central government and government guaranteed debt on gross basis. From FY 2002/03, includes debt issued to the BoJ to cover its cash losses and related capitalized interest. FY 2006/07 debt includes US$350 million in prefinancing. The primary balance includes budgetary primary balance and off-budget expenditure. Dynamics do not drive guaranteed debt. PetroCaribe debt treated as guaranteed debt in this analysis.

2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP. Guaranteed debt added for presentational purposes.

8/ Derived as nominal interest expenditure divided by previous period debt stock.