

International Monetary Fund

[Jamaica](#) and the IMF

Jamaica: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

Press Release:

[IMF Executive Board Concludes Thirteenth Review under the EFF with Jamaica and Approves US\\$39.6 Million Disbursement](#)
September 19, 2015

August 30, 2016

The following item is a Letter of Intent of the government of Jamaica, which describes the policies that Jamaica intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Jamaica, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

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Letter of Intent

Kingston, Jamaica
August 30, 2016

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

Dear Ms. Lagarde,

Jamaica has continued the steadfast implementation of its Fund-supported economic reform programme aimed at overcoming the long-standing problems of low growth and high debt. All quantitative fiscal and monetary performance criteria under the programme have been met for all quarterly test dates, with the exception of the March 2015 nominal target for the primary surplus for the central government, which was missed by a narrow margin, owing to lower than projected inflation and GDP growth (the surplus still came in at the projected 7.5 percent of GDP). The Government has also implemented all of the structural benchmarks that were included in the programme, albeit with some minor delays.

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

On the basis of our performance under the programme thus far as well as our strong commitment to the continued implementation of the programme, the Government requests that the Executive Board of the IMF complete the 13th review of the extended arrangement under the Extended Fund Facility and the purchase under the arrangement of SDR 28.32 million.

The Government believes that the policies described in the attached MEFP are adequate to achieve the programme's objectives. However, if necessary, the Government stands ready to take any additional measures that may be required. The Government will consult with the Fund in advance on the adoption of these measures and revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

The Government will also provide the Fund staff with all the relevant information required to complete programme reviews and monitor performance on a timely basis. The Government will observe the standard performance criteria against imposing or intensifying exchange restrictions, introducing or modifying multiple currency practices, concluding bilateral payment agreements that

are inconsistent with Article VIII of the Fund's Articles of Agreement and imposing or intensifying import restrictions for balance of payments reasons.

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

Very truly yours,

/s/
Audley Shaw
Minister of Finance and the Public Service
Jamaica

/s/
Brian Wynter
Governor, Bank of Jamaica
Jamaica

Attachment I. Memorandum of Economic and Financial Policies

I. PERFORMANCE UNDER THE PROGRAMME

1. **Policy implementation under the programme remains strong and structural reforms are progressing.** All quantitative performance targets for end-June 2016 were met and a new high level policy on public bodies that will ensure consistent PFM rules for public bodies was submitted to Cabinet in June (structural benchmark). We are also making progress on the measures for forthcoming reviews, including on public sector transformation.

II. POLICIES FOR 2016/17 AND BEYOND

2. **The Government remains fully committed to the reform programme.** It aims to increase efforts to boost growth and job creation, and strengthen social protection, supported by continued macroeconomic discipline. The quantitative targets that serve as performance criteria and indicative targets under the programme have been updated, and are presented in Table 1. The structural conditionality under the programme is presented in Table 2.

Fiscal Policy

3. **The budget for 2016/17, adopted by Parliament in May, targets a primary surplus of 7 percent of GDP, and increases room for growth-enhancing capital expenditure to support growth and job creation.** Economic growth is projected at 1.7 percent for this fiscal year, up from 1 percent in 2015/16. Capital spending is projected to increase from just below 2 percent of GDP in 2015/16 to 2.5 of GDP this fiscal year. To keep public debt on a downward trajectory to 96 percent of GDP by end-March 2020 and to 60 percent by 2025/26, a primary surplus of a 7 percent of GDP primary surplus will be maintained over the medium term.

4. **Preparations for the 2017/18 budget are underway, with the budget call expected in September.** We will seek to present the draft budget to parliament in February 2017, to allow for adoption prior to the start of the fiscal year, consistent with the fiscal rule legislation.

Tax Reforms

5. **Comprehensive tax reform is a key pillar of our economic reform programme.** The goal is an efficient and broad-based tax system that applies equitably to all entities, regardless of their sphere of economic activity. Based on ongoing IDB TA, we will continue to improve the reporting on tax expenditures and their estimated fiscal costs in the context of future budgets.

6. **Continuing tax reforms to rebalance from direct toward more efficient and growth-friendly indirect taxes is a central element of our program.** Effective July 1, 2016, we raised the exemption threshold for the personal income tax (PIT) to J\$1,000,272 from J\$592,800 (Phase I). A

further increase to J\$1,500,096 will take place on April 1, 2017 (Phase II). The marginal tax rate for earnings above J\$6 million was also increased from 25 to 30 percent on July 1, 2016.

- Phase I of this PIT reform is estimated to cost 0.9 percent of GDP this fiscal year and offsetting revenue measures implemented include (i) a J\$7 per liter increase in the specific SCT on fuels, (ii) increase in the departure tax to US\$35, (iii) increase the SCT on cigarettes by J\$2 per stick, and (iv) implementation of a new LNG taxation regime.
- Phase II of the PIT reform is estimated to cost an additional 0.9 percent of GDP (about J\$16 billion) in FY17/18. We are currently exploring options for offsetting revenue measures for implementation in the FY2017/18 budget, with support from the IMF. Ensuring revenue neutrality of the overall tax reform package, however, could require revenue measures in excess of 0.9 percent of GDP—given the extra social transfers needed to shelter the purchasing power of the most vulnerable from the shift from direct to indirect taxes.
- In the context of the shift from direct taxation, we will also strengthen property taxes, which have been shown to be both progressive and efficient. The new rates and bands for property taxes using the 2013 land valuations will be completed and submitted to Cabinet for approval by end-December 2016 (*new structural benchmark for end-December 2016*).
- We are also exploring the scope for environmental taxation, including a carbon tax that will help Jamaica fulfill its Paris commitment by 2025.
- A comprehensive tax reform package—with due account to social protection—that extends beyond funding Phase II of the PIT reform, will be put in place starting in FY2017/18.

7. **The Tax Administration of Jamaica will enforce compliance with the new transfer pricing legislation for year of assessment 2016.** The transfer pricing legislation, passed in November 2015, includes the requirement to file a declaration of connected party transaction.

- A transfer pricing implementation strategy and action plan is being prepared with the support from the FAD resident advisor. It is expected to be finalized by September 2016 and execution will begin in October 2016.
- Two teams have been set up in the LTO, the necessary bulletins have been prepared and are under review by the OECD.
- Discussions on Advanced Pricing Agreements will commence in October 2016.

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

- Continued implementation of the TAJ National Compliance Plan (NCP) including the rationalization of key performance indicators (KPIs). Beginning in September 2016, the TAJ will prepare quarterly matrices showing the targets and actual results for each respective KPI in the NCP.

- Completion of staffing of the TAJ as a Semi-Autonomous Revenue Authority (SARA). All final offers are expected to be accepted by end-November 2016. Capacity will continue to be enhanced through: (i) training for audit managers, with a first session starting in November 2016, and (ii) the submission of the justification for the Policy and Transformation positions to the relevant division of the MOFP by October 2016
- Developing a comprehensive technical services framework by end-November 2016.
- Following up on the entity-by-entity review of all grandfathered tax incentives, the Fiscal Impacts Report will be produced by September 2016.
- Improving the efficiency of the large taxpayers' office (LTO) by (i) achieving and maintaining on-time filing rates of 99 percent for LTO clients for major taxes and (ii) completing 70 comprehensive audits and 11 issue audits and (iii) settling 90 objections, by March 2017.
- Achieving e-filing rates for the specified tax types for all returns for the Medium Taxpayers in alignment with the IDB revised requirements of (i) GCT over 80 percent by January 2017, (ii) CIT over 40 percent by April 2017, and (iii) PAYE over 65 percent by April 2017. The remaining taxpayers i.e. SMEs will be required to e-file their GCT returns by April 2018.
- Phase 1 of the Enterprise Content Management (ECM) system processes comprising (1) the electronic imaging and data capture of paper tax returns and (2) the electronic imaging of other paper documents (e.g., taxpayer letters, certified copies of certificates, auditor working papers, taxpayer rulings etc., in RAiS) has been completed. Interim testing on linking of these processes to RAiS case actioning and reporting components was concluded in June 2016. Phase 3 of RAiS is expected to be completed by September 2016.
- We have completed the implementation of ASYCUDA World which became mandatory for all international trade transactions on April 1.
- The legislative framework supporting enhanced trade facilitation practices by the JCA, as articulated in phase III of the Customs Act, is being harmonized with trade facilitation, the Special Economic Zone (SEZ) legislation, and treaty obligations with World Bank and CARTAC assistance. Drafting of the Phase III of the Customs Act will be concluded by end-December 2016 and tabled in parliament by end-March 2017.
- The SEZ Act was promulgated in February 2016, with the Appointed Day Notice being issued on August 1, 2016. The following steps have been taken or to be taken: (i) the members of the Oversight Board of the SEZ Authority were named in August 2016; (ii) commence the hiring of the Authority's management team by end-October 2016, and (iii) complete the drafting of regulations to implement the Act by end-October 2016;
- We are working to increase the number of completed PCA audits to 60 a year by March 2017, where 25 percent of the PCA audits undertaken are identified by risk management system. We aim to increase the latter proportion to 50 percent by March 2018.

Reforms to Public Financial Management (PFM) and the Budget Process

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

- A new procurement manual has been prepared with IDB assistance and is currently being revised. An Electronic Tendering System has been implemented in four pilot entities (Ministry of Finance and Public Service, e-Gov, Ministry of Health and National Health Fund) and three more entities (HEART Trust, PAJ, and OPM) were covered in June 2016.
- The macro-fiscal capacity of the Ministry of Finance and the Public Service (MoFP) will be strengthened with the support of IMF and other TA. The new organizational structure will be approved by end-August 2016; the selection process will begin afterwards. We expect all final offers to be accepted by end-November 2016.
- By end-September 2016, a new organizational structure for the Accountant General's Department (AGD) should be approved by Corporate Management Development (CMD) branch in the Ministry of Finance and Public Service (*structural benchmark for end-September 2016*). Transfer of the responsibility for further development and management of the CTMS from the MoFP to the AGD is ongoing; the mapping of functions was finalized in July 2016. Upon CMD's final approval, all positions and responsibilities will be permanently transferred to the AGD.
- A service level agreement (SLA) between the BoJ and the Government for banking services provided by the BoJ was signed in August 2016. After the circular is issued by the MOFP, full responsibility for the management of government accounts will be transferred to the AGD. An updated inventory of all bank accounts in the public sector was prepared in July 2016. By September 2016, a list of dormant and inactive accounts scheduled for closure will be prepared with the aim of closing them by December 2016.
- To enhance capacity in support of its ongoing reform agenda, the AGD will conduct a Training Needs Assessment by end-January 2017 to identify priorities and develop a medium term training program (*new structural benchmark for end-January 2017*).

10. **The Treasury Single Account (TSA) at the BoJ and overall cash management will be further expanded and improved.** Salaries of over 53,000 civil servants in the central government are now paid directly from the TSA including teachers and police.

- The more than 30 imprest accounts belonging to MDAs will be merged into a single imprest account by end-September 2016.
- We are putting in place phase 1 of enhancements to CTMS (expected to be completed by end-December 2016). Preparations for the web enablement of FinMan are also ongoing; implementation will begin by January 2017 after all enhancements and job orders for CTMS are completed and signed off.

- A ledger accounting system has been introduced into the CTMS with ledgers for the RTGS and ACH accounts. A plan for introducing ledgers for all other bank accounts maintaining a cash balance was prepared by July 2016; implementation of revenue bank accounts began in August 2016.
- A plan for paying all revenues, including earmarked revenues, into the TSA was drawn up in July 2016. By March 2017, we expect to (i) close all accounts used by MDAs to deposit funds earmarked as AIAs, and (ii) enable deposit of funds presently earmarked as AIAs directly into the CF. Daily sweeps of all revenue transit accounts into the TSA are also expected to begin by March 2017.
- By end-October 2016, cash transfers for intra-government transactions, which can be replaced by journal vouchers, will be eliminated.

Debt Management

11. **The Government of Jamaica is committed to sharply reducing public debt, which is expected to decline to 96 percent of GDP by end-March 2020.** This is expected to be achieved by sustained fiscal discipline, policies to bolster growth, as well as a prudent debt management strategy. In designing and implementing these undertakings, the GoJ will seek to ensure sound public sector governance and public debt management. The debt management strategy will seek to expand financing sources, including by further developing and deepening the domestic bond market, so as to reduce currency, duration and concentration risk for both the government and the financial sector. This is particularly important in light of the large redemptions coming due beginning in FY17/18.

Public Sector Reform

12. **The GoJ is committed to improving the efficiency, quality and cost effectiveness of the public sector.**

- **Public sector transformation.** Petroleum Company of Jamaica Limited (Petcom) was divested in July 2016. Going forward, we will:
 - By March 2018, centralize legal services within the central government under the office of the Attorney General, with support from Justice Canada.
 - Subject to legislative approval, implement the merged organizational structure between Betting Gaming and Lotteries and the Racing Commissions in April 2017.
 - Merge selected commodity Boards and the Export Division of the Ministry of Agriculture & Fisheries which deals with Spices into a single new body to be named the Jamaica Agricultural Commodities Regulatory Authority (JACRA). The legislation has been submitted to Parliament and the full merger is expected to be completed by September 2016.

- Consequent on securing funding, we will seek to complete the procurement of the system for the Asset Management Shared Services and have a contract in place with the successful bidder by April 2017.
- We will submit to Cabinet an action plan for public sector transformation by end-September 2016. In particular, it will include detailed timelines for (1) the introduction of shared corporate services for communications and human resource management and (2) the merger, abolition and/or divestment/privatization of entities. The plan will also outline specific areas where efficiency gains can be made. (*structural benchmark for end-September 2016*).
- **Wages and salaries.** The Government has signed new wage agreements for the 2-year period after March 2015 with 97 percent of public sector employees. Discussions for the period starting April 2017 will begin by November 2016 and are expected to conclude before April 1, 2017. Informed by the compensation review to be completed by December 2016, the government's goal is to achieve a wage bill of 9 percent of GDP in FY18/19, and to firmly maintain the ratio of public debt to GDP on a downward path over the medium term. In order to achieve this objective, the GOJ will continue to reduce the size of the public sector through the elimination of posts and by putting in place a clear attrition rule, subject to the capacity needs in a limited number of priority areas.
- **Compensation Review.** We will continue to build a comprehensive database to include all allowances paid to public employees across each MDA to ensure adequate control and oversight over this part of the wage bill. The database will be by occupational grouping and will include all types of allowances paid, their amounts as well as the number of employees that benefit from each type of allowance in a given fiscal year. A two-part pilot implementation will be pursued. A pilot for the Ministry of Finance and the Public Service will be completed by end-August 2016, followed by island-wide pilots, to be completed by end-November 2016, at the Ministry of Health (medical professionals), Ministry of Education, Youth and Information (teaching groups) and the Jamaica Constabulary Force (police groups) (*structural benchmark for end-November 2016*) The review of all other central government MDAs will be completed by March 2017.
- **Employee Census.** To ensure adequate oversight, we will verify each employee's post and eligibility of the post for allowances beginning with a two-part pilot where the first part will comprise of island-wide pilots at the Ministry of Finance and the Public Service, the civilian population of the Ministry of National Security, and the NIS to be completed by end-August 2016. The second part will include an island-wide pilot for the non-teaching personnel in the Ministry of Education to be completed by end-November 2016 (*structural benchmark for end-November 2016*). These pilots target groups with high turnover rates where a headcount exercise could yield significant gains. The verification for all other central government MDAs will be finalized by March 2017.
- **Pension Reform.** The Pension Bill was re-tabled in Parliament in July 2016. The new public pension system, as described in the June 2014 MEFP, is expected to be implemented in April

2017. The implementation will include regulations (to be developed by end-January 2017) to align the benefits accrual rate to international standards.

13. **The implementation of the human resources software system (the HCMES system; including Payroll) is progressing.** A project plan and a full-time dedicated project management team have been put in place. The configuration of the system was completed in June 2016, when the roll-out to the first 14 MDAs began.

14. **In the area of public bodies, further improvement is to be achieved to improve their efficiency and supervision.**

- To enhance transparency, the annual reports (including audited statements) for three-quarters of self-financing public bodies have been completed for FY15/16. The sanctioning process under Section 25 of the Public Bodies Management and Accountability Act of self-financing public bodies that failed to meet the statutory condition without reasonable cause is ongoing.
- The new structure of the Auditor General's office was approved in May, 2015. Its ongoing implementation, expected to conclude by April 2019 will allow for more in-depth and frequent reviews of financial statements of budget funded public bodies and enforcement of the six months' time limit for their submission to the Auditor General.
- A new policy on public bodies that ensures consistent PFM rules for public bodies was submitted to Cabinet in June 2016 (*structural benchmark end-June 2016*) and has been approved. The policy creates classes of public bodies and identifies key PFM principles to be adhered to for each class. The Public Enterprises Division in the MOFP will be responsible for ensuring that the policy on public bodies is being adhered to across the entire spectrum of PFM reform projects.
- Upon final approval by Cabinet of the new policy on public bodies, we will conduct a review of all existing public bodies to determine their classification. The review will also evaluate the scope for merging and reintegrating some public bodies into the central government. A strategy to implement the rationalization will be developed by end-September and the categorization of all public bodies into the new classes will conclude by end-February 2017.

III. FINANCIAL SECTOR REFORMS

15. **We are strengthening the prudential framework for financial supervision.**

- Under the Banking Services Act, the code of conduct on consumer related matters will be issued by end-August 2016. Regulations pertaining to agent banking will be tabled in Parliament by September 2016. The suite of regulations and rules that will comprise the regime for financial holding companies and consolidated supervision will be shared with the industry by end-November 2016, to be tabled by end-March 2017.
- We will ensure that in the near- to medium-term, the retail repo portfolios of individual firms and the securities industry as a whole is at a level deemed by the BoJ and the FSC to be

systemically safe and prudentially manageable. Following industry consultation and guidance from the Steering Committee, we have started implementing a strategy to introduce and gradually tighten prudential standards for the securities sector:

- In April 2016, we introduced an operational risk-weighted asset component in the calculation of securities dealers' capital adequacy;
- In June 2016, we started issuing comprehensive prudential guidelines for securities dealers;
- By December 2016, we will require all securities dealers to conduct regular stress tests and submit test results;
- By end-March 2017, the extension provided for the securities dealers to obtain client signatures for the Master Retail Repo Agreements (MRRAs) shall end; and only assets pertaining to signed MRRAs will be held in the trust that has been established for the retail repo clients. All other retail repo accounts will be terminated by that date and the FSC will issue regulations by end-March 2017 to institute mechanisms to safeguard the assets pertaining to the terminated contracts, for the benefit of the client.
- We will implement a limit of 25 percent on exposure to counterparty by 2019. By end-October 2016, we will begin consultations with the industry on the possibility of introducing intermediate targets;
- We are monitoring the dealers' retail repo leverage ratio, with the goal of introducing a minimum retail repo leverage ratio by April 2017 to be fully implemented and enforced by April 2019;
- We will take steps to further strengthen depositor protection and investor compensation across financial institutions, including also credit union depositors. Drafting instructions for the amendments to the Cooperative Society Act will be finalized by soon.

16. We are further enhancing the arrangements for financial crisis preparedness and management.

- We will prepare a consultation paper for the resolution framework for the entire financial sector, including proposals on (i) the scope of institutions that would be covered by the resolution regime; (ii) the resolution powers; (iii) the legal structure of the regime (i.e., administrative, court-based, or a combination); and (iv) the roles and responsibilities of the various agencies with respect to resolution (*structural benchmark for end-October 2016*). A working group has been established to prepare this paper, with inputs from stakeholders and IMF TA.
- To enhance the resolution framework for the financial sector, by end-February 2017 we will submit to Cabinet proposals for legislation.

17. We will continue to strengthen the mandate and governance of the BoJ.

- The Financial System Stability Committee, introduced by the amended BoJ Act which became effective in October 2015 and vested the BoJ with the responsibility for financial stability, will be formally established by September 2016. The functions and powers of the FSSC include producing financial stability assessments, the regular exchange of information on financial sector risks, commissioning stress tests and determining parameters that will trigger macro-prudential action. A proposal will be submitted to Cabinet in September 2016, discussing further amendments to the BoJ Act for enhancing BoJ governance and autonomy.

18. **We are implementing measures to protect the interest of retail repo clients.** In addition to the transition to the trust-based framework in August 2015, we raised the investment cap for CIS in foreign assets to 15 percent in June 2015, and to 25 percent by end-December 2015. Going forward, the BoJ will continue to monitor market conditions and compliance with the existing limits and assess the readiness to lift the investment cap further.

IV. MONETARY AND EXCHANGE RATE POLICY

19. **Monetary policy aims to achieve single digit inflation within a flexible exchange rate regime.** We envisage inflation in the range of 4.5 to 6.5 percent in FY2016/17 and over the medium-term. The long term objective is to gradually reduce inflation to a rate that is consistent with that of our main trading partners, and to eventually move to full-fledged inflation targeting. The BoJ will conduct annual reviews of Jamaica's readiness for inflation targeting. A draft of its first review has been completed. The outcome of the annual reviews will provide the inputs for an informed decision on the timing of adoption of inflation targeting to be made by Cabinet.

20. **The BoJ will continue to ensure the provision of adequate liquidity to the financial system at a price consistent with its policy goals.** Guided by IMF TA, the BoJ is developing a comprehensive strategy to improve the effectiveness of its open market operations and liquidity assurance framework in order to enhance the monetary policy transmission mechanism. Specifically, the BoJ will begin a programme of transitioning its policy rate to an overnight interest rate. This transition will be done over a six-month period, commencing with an adjustment of the interest rate on its overnight deposit facility in September 2016. The Bank will remove the bias in the cash reserve requirement structure that favours foreign currency deposits by gradually equalising the reserve requirements for foreign currency and domestic currency deposits in the banking system, starting October 2016. This initiative will reduce the attractiveness of foreign-currency denominated investments relative to Jamaica Dollar alternatives.

21. **The BoJ will continue to facilitate the development of the foreign exchange market.** The BoJ, in consultation with IMF TA, is exploring mechanisms to improve price discovery in the FX market and to prevent excessive speculative position-taking in the market. The BoJ also remains cognizant of the need to purchase foreign currency to further boost net international reserves.

V. GROWTH ENHANCING REFORMS

22. **We have established an Economic Growth Council (EGC).** The EGC includes representatives from the private sector and a representative from the Jamaica Confederation of Trade Unions. The EGC is mandated by the Prime Minister and Cabinet to identify a framework of initiatives designed to facilitate and catalyze growth. The EGC is supported by an Executive Secretariat that is also mandated to work closely with Government ministries, departments, agencies, and the private sector. Appropriate monitoring, evaluation and transparency mechanisms will be put in place to ensure that the EGC works closely with the Jamaican people, the private sector and civil society in the context of the growth and jobs agenda. The EGC has consulted with a broad cross section of Ministries, public departments and agencies, private sector groups, the Opposition, international multilateral partners and embassies. The EGC will complete its proposal of growth initiatives by September 12, 2016.

23. **Further actions for improving the business climate are critical:**

- A revised standardized pricing framework for development application fees is currently under review and is expected to be approved by Cabinet by end-October 2016.
- We will continue to report, on a quarterly basis, on progress in reducing the time needed for the approvals process for development projects, especially for commercial development projects, including against the 90-day benchmark. Around 89 percent of all building and planning applications were approved within 90 days for the first quarter of 2016.
- LAMP services were expanded to St. James, Trelawny, Hanover, St. Ann and Westmoreland in 2015/16, with 1,236 new titles issued during the year. Under the GoJ Land Titling programme, 9,093 titles were issued in FY2015/16 and 15,000 titles are expected to be issued each year for FY2016/17 and FY2017/18.
- The implementation of the online system for business registration is being re-examined with the aim of developing a web-based form. A project manager was put in place in August 2016 and we expect to develop a project plan with firm timelines soon thereafter.
- Urgent actions will be taken to reduce the time needed for entrepreneurs to get an electricity connection. Plans foresee the automation of the work processes within the Government Electrical Regulator (GER) and the acquisition of further modules for the AMANDA software (currently operational in all parishes) to streamline procedures for scheduling, inspecting, approving and certifying electrical installations.
- The Port Community System (PCS) that electronically integrates and streamlines export and import procedures was launched in January 2016. The Export and Import modules in Kingston are expected to be implemented in October 2016 and January 2017, respectively. The ASYCUDA World Customs Management System acquired by the JCA will support integrated processes/procedures and the National Single Window, the latter supported by a World Bank

loan. Functions of the PCS that cannot be offered through ASYCUDA will be pursued by the private sector, possibly under a management contract.

- The GOJ has set up a Trade Facilitation Task Force which is examining the implications of all of the above systems and solutions, to ensure that Jamaica has an integrated and modern trade and logistics environment.
- We have developed an umbrella financial inclusion strategy, with inputs from stakeholders and consultancy from the World Bank, covering key areas including MSME financing, housing finance, payments, rural finance, consumer protection and literacy. In that context, a financial inclusion council will be established to oversee the implementation of the strategy. Next steps include establishing depositor protections for credit unions and tabling agent banking regulations to Parliament.
- The Development Bank of Jamaica (DBJ) achieved 121 percent of its MSME lending target in 2015/16. The DBJ is targeting to provide increased funding to MSMEs in 2016/17 and beyond. The Mobile Money for Microfinance initiative is being reconfigured to focus on establishing an ecosystem for private-sector driven mobile money operations. With assistance from the IDB, the project is expected to be completed by 2018.
- We will develop other areas of reform to improve the access to capital and reduce the cost of funding for MSMEs, including provision of support for MSME capacity development programmes, streamlining the process of listing on Junior Stock Exchange, establishment of a venture capital eco-system, full implementation of collateral and insolvency reforms, SME value chain development, promotion of factoring and lease financing mechanisms, enhancement of the partial credit guarantee scheme and micro-credit legislation and institutional reform.
- The Agro Parks Initiative, which aims to stabilize the agricultural supply chain, boost exports, and increase import replacement is progressing. Nine agro parks are already operational. Negotiations are ongoing to establish at least three more parks in 2016/17, with the IDB and CDB under solicitation to support at least two new Agro Parks. An IDB-financed consultancy is underway to prepare a sustainability framework for the existing Agro Parks and criteria for selection of new Parks. A matching grant scheme will benefit small farmers in their cluster work with lead anchor firms that export. The first call for grant proposals under the scheme was issued in July 2016 and disbursements have commenced.
- A national strategic plan for the BPO industry is now being implemented. Key actions under the plan include the establishment of a policy and legislative framework, labour market initiatives, infrastructure development, the development of business plans to attract developers and investors, and actions to support market penetration.

24. **Strategic investments to establish Jamaica as a logistics hub are well underway:**

- A 30-year concession agreement was signed with Kingston Freeport Terminal Ltd (KFTL) in end-June 2016 regarding the privatization of Kingston Container Terminal (KCT). Under the agreement, beginning July 1 2016, the concessionaire will undertake dredging the access

channel to the Kingston Harbour and the KCT basin to allow for the handling of larger vessels that transit the newly-expanded Panama Canal. The concessionaire is expected to invest approximately US\$625 million over two phases of the concession, with the possibility of a third phase.

- Work is reinitiating on the privatization of Norman Manley International Airport (NMIA). A new enterprise team has been appointed; the current timeline foresees commercial closure 10 months after the bidder has been selected.
- Work is also proceeding on the Caymanas SEZ, with World Bank support. A request for expression of interest was completed in November 2015, and we plan to issue the request for proposals for the feasibility study to the pre-qualified firms soon. This work is closely aligned with a Master Plan for the Logistics Hub Initiative expected to be completed by April 2017, also supported by the World Bank.
- The development of a transshipment port and industrial and commercial zones in the Portland Bight area by China Harbour Engineering Company (CHEC) is ongoing. Technical feasibility studies for the project have commenced. This is a prerequisite for determining the construction methodology and for obtaining the terms of reference from NEPA for the Environmental Impact Assessment.

25. **Reducing the cost of electricity is critical to improve competitiveness:**

- The action plan prepared by the Electricity Sector Enterprise Team (ESET) foresees replacing current (oil-fired) generation capacity with gas and ethane-fired plants, to achieve significant cost savings. The conversion of the Bogue power station from oil to LNG has been concluded; it will begin operations using LNG in August 2016. In addition, the government has approved the construction of Jamaica's first natural gas-fired power plant, a 190MW facility to be built and operated by JPS, and to be completed by 2018. Several renewable energy projects are also under way. Besides lowering electricity costs, these reforms are essential to reduce Jamaica's exposure to oil price fluctuations and help the country attain its emission goals.
- We will prepare a plan to ensure that all public entities (central government, local government, and public bodies) meet their financial obligations to utility companies in a timely manner.

26. **Labour market reforms are progressing.** In the context of the recently launched Comprehensive Labour Market Reform Agenda, a Labour Market Reform Commission and Secretariat was established and became operational on April 1, 2015. The Commission has been reviewing policies and practices in the five thematic areas of education and training; productivity, technology and innovation; labour policies and legislation; social protection; and industrial relations. A first draft of recommendations will be submitted to the Minister of Labour and Social Security (MLSS) by end-October 2016. Final recommendations will be submitted by end-March 2017.

VI. REFORM OF THE SOCIAL SAFETY NET

27. **Efforts to strengthen the social protection framework are progressing.** A draft graduation strategy for PATH households has been prepared and is under review by the MLSS. Submission to Cabinet is expected to take place after approval by MLSS and subsequent discussions with PIOJ. The comprehensive social protection strategy launched in July 2014 is being implemented: a monitoring and evaluation framework has been developed and a monitoring and evaluation specialist will be recruited to implement particular aspects.

28. **A national ID system (NIDS) will be rolled-out to all residents by 2020 which will improve targeting of social spending.** The first phase, which included the development of the legislative and institutional framework and designing the NIDS ICT infrastructure, was completed with IDB support. The second phase will begin in October 2016, following the submission of the NIDS policy to parliament by September 2016.

29. **Reforms to improve the sustainability and coverage of the NIS are ongoing.** A committee was established last year to examine reform options, after the actuarial review. A draft reform proposal has been prepared and discussions with stakeholders are ongoing; a submission to Cabinet is expected by September 2016.

Table 1. Jamaica: Quantitative Performance Criteria 1/2/3/

(In billions of Jamaican dollars)

	2016			2017		
	End-June	End-Sept	End-Dec.	End-Mar.		
	PC	Adjusted PC	Actual	PC	PC	Indicative Targets
Fiscal targets						
1. Primary balance of the central government (floor) 4/	11.0		26.8	29.0	54.0	122.1
2. Tax Revenues (floor) 4/9/	99.0		108.3	198.0	300.0	440.0
3. Overall balance of the public sector (floor) 4/	-29.0	-31.9	-6.2	-41.0	-51.5	-17.2
4. Central government direct debt (ceiling) 4/5/	19.5		-3.6	45.0	55.0	61.0
5. Central government guaranteed debt (ceiling) 4/	0.0		-0.9	0.0	0.0	0.0
6. Central government accumulation of domestic arrears (ceiling) 6/12/13/	0.0		-0.1	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 7/12/13/	0.0		-1.9	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 6/12/	0.0		0.0	0.0	0.0	0.0
9. Social spending (floor) 9/10/	4.8		7.6	9.7	16.4	24.3
Monetary targets						
10. Cumulative change in net international reserves (floor) 8/11/	-199.6	-186.4	285.6	-49.6	52.3	152.3
11. Cumulative change in net domestic assets (ceiling) 11/	28.7	27.1	-20.9	9.0	21.9	-2.0

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

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

3/ Based on program exchange rates defined in the March 2015 TMU.

4/ Cumulative flows from April 1 through March 31.

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

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

7/ Includes tax refund arrears as stipulated by law.

8/ In millions of U.S. dollars.

9/ Indicative target.

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

11/ Cumulative change from end-December 2014.

12/ Continuous performance criterion.

13/ The accumulation is measured against the stock at end-March 2016, which is J\$21.0 billion for domestic arrears and J\$17.3 billion for tax arrears.

Table 2. Jamaica: Structural Program Conditionality

Measures	Status/Timing	
Structural Benchmarks	Timing	Implementation status
Institutional fiscal reforms		
1. Revise the relevant legislation for the adoption of a fiscal rule to ensure a sustainable budgetary balance, to be incorporated in the annual budgets starting with the 2014/15 budget.	March 31, 2014	Met
2. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform.	March 31, 2014	Met
3. Government to ensure there is: (i) no financing of Clarendon Alumina Production (CAP) by the government or any public body, including Petro Caribe; and (ii) no new government guarantee for CAP or use of public assets (other than shares in CAP and assets owned by CAP) as collateral for third-party financing of CAP.	Continuous	Met
4. Government to table in parliament a budget for 2014/15 consistent with the program.	April 30, 2014	Met
5. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17, Country Report No. 13/378).	April 30, 2014	Met
6. Cap the total loan value of all new user-funded PPPs at 3 percent of GDP on a cumulative basis over the program period.	Continuous	Met
7. Ensure that the public service database e-census is up to date and covers all Ministries, Departments and Agencies.	September 10, 2014	Met
8. Develop an action plan for public sector transformation to cover the following areas: (1) the introduction of shared corporate services, (2) the reallocation, merger, abolition and divestment/privatization of departments and agencies, (3) outsourcing of services, (4) strengthening control systems and accountability (including in auditing and procurement), and (5) aligning remuneration with job requirements.	September 30, 2014	Met
9. Government to table changes in legislation for the new public sector pension system expected to be implemented by April 2016 (MEFP paragraph 25, Country Report No. 14/169).	November 30, 2015	Met
10. Government to establish a new Cash Management Unit in the Accountant General Department (AGD) and transfer to it the cash management function currently handled by the Fiscal Policy Management Unit (FPMU).	September 30, 2015	Met
11. Put in place a full-time dedicated project management team for the implementation of the human resources software system (including specialists in the areas of Business Process Mapping, Human Resource Management, Payroll Administration and Data Migration).	January 31, 2016	Met
12. Develop and submit to Cabinet for approval a new policy on public bodies that will ensure consistent PFM rules for public bodies.	June 30, 2016	Met
13. Submit to Cabinet an action plan for public sector transformation by end-September 2016. In particular, it will include detailed timelines for (1) the introduction of shared corporate services for communications and human resource management and (2) the merger, abolition and/or divestment/privatization of entities. The plan will also outline specific areas where efficiency gains can be made.	September 30 2016	
14. The Corporate Management Development (CMD) branch in the Ministry of Finance and Public Service to approve a new organizational structure for the Accountant General's Department.	September 30 2016	
15. Complete a two-part island-wide pilot to build a comprehensive database on all allowances paid to public employees in the Ministries of Finance, Health, Security, and Education. The database will be by occupational grouping and will include all types of allowances paid, their amounts as well as the number of employees that benefit from each type of allowance in a given fiscal year.	November 30, 2016	
16. Verify each government employee's work post and eligibility for allowances in a two-part pilot across the Ministry of Finance, the civilian population of the Ministry of Security, and the NIS, and non-teaching personnel in the Ministry of Education.	November 30, 2016	
17. The AGD to conduct a Training Needs Assessment to identify priorities and develop a medium term training program.	January 31, 2017	Proposed
Tax Reform		
18. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as stipulated in the TMU.	Continuous	Met
19. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (paragraphs 6, 7, 8, and 9 of the MEFP for Country Report 13/378) and as stipulated in par. 13 of the March 2014 MEFP.	March 31, 2014	Met
20. Government to table in parliament amendments to the GCT as stipulated in paragraph 12 of the June 2014 MEFP.	June 30, 2014	Met
21. Government to conduct an entity by entity review of all grandfathered entities and of their specific tax incentives in the context of the new tax incentives legislation by end-2014/15.	January 31, 2015	Not met 1/
22. Government to table legislation governing the tax regime that will be part of the SEZ legislation consistent with the criteria listed in the June 2015 MEFP par. 13 to help safeguard the integrity of the tax system and avoid tax leakage.	October 31, 2015	Met
23. Conclude all work on the calculation of new rates and bands for property taxes, consistent with the 2013 valuations, and submitting them to Cabinet for approval.	December 31, 2016	Proposed
Tax Administration		
24. Government to make e-filing mandatory for LTO clients with respect to General Consumption Tax (GCT) and Corporate Income Tax (CIT).	March 31, 2014	Met
25. Government to implement ASYCUDA World for the Kingston Port as a pilot site.	December 31, 2014	Met
26. Government to: (i) increase the number of staff in the large taxpayers office (LTO) by a further 30 auditors (from March 2014 to March 2015); (ii) increase the number of (full plus issue) audits completed in the LTO by 100 percent (from FY 2013/14 to FY 2014/15); (iii) achieve 95 percent take up rate of e-filing and e-payment in the LTO; (iv) write-off all GCT and SCT debts that have been subjected to risk-rated stress tests and consequently categorized as uncollectible according to the Regulations.	March 31, 2015	Not met 2/

Table 2. Jamaica: Structural Program Conditionality (Concluded)

Measures	Status/Timing
27. Government to complete pilot testing of ASYCUDA World (covering imports and exports) in the Kingston port.	May 31, 2015 Met
28. Government to implement Phase 1 (Registration, GCT, SCT, GART, Telephone) of the GENTAX integrated tax software package.	February 28, 2015 Met
29. Government to table in Parliament proposals for a comprehensive overhaul of the Customs Act.	June 30, 2015 Met
30. Government to fully implement the key performance indicators, as outlined in the National Compliance Plan, to measure the effectiveness and efficiency of the tax system.	November 30, 2015 Met
31. Government to implement Phase 2 of the RAIS (GENTAX) integrated tax software package, for all major tax types.	December 31, 2015 Met
32. Increase the capacity of the Post-Clearance Audit (PCA) unit in the JCA through the hiring of 15 more auditors.	March 31, 2016 Met
Financial sector	
33. Government to table legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014 Met
34. Government to submit proposals for a distinct treatment for retail repo client interests in the legal and regulatory framework to the relevant financial industry for consultation (MEFP March 2014 Paragraph 25) in consultation with Fund staff.	March 31, 2014 Met
35. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (June 2014 MEFP Paragraph 29) in consultation with Fund staff.	December 30, 2014 Met
36. Government to table the Omnibus Banking Law ^{3/} consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014 Met 4/
37. Government to finalize the transition of retail repos to the trust-based framework.	August 30, 2015 Met
38. Government to fully implement the Banking Services Act.	September 30, 2015 Met
39. The BOJ to have overall responsibility for financial stability.	November 1, 2015 Met
40. Draft a consultation paper for the resolution framework for the entire financial sector, including proposals on (i) the scope, roles and responsibilities, and powers of institutions that would be covered by the resolution regime; and (ii) the legal structure of the regime (i.e., administrative, court-based, or a combination).	October 31, 2016
Growth enhancing structural reforms	
41. Government to implement a new (AMANDA) tracking system to track approval of construction permits across all parish councils.	December 30, 2014 Met
42. Government to table in parliament the Electricity Act.	January 31, 2015 Met
<p>1/ The review was reportedly completed in March 2015.</p> <p>2/ While all other elements of the benchmarks were met, technical difficulties prevented the achievement of 95 percent take-up rate of e-filing in the LTO. The take-up rate was 80 percent.</p> <p>3/ Currently referred to as the Banking Services Act.</p> <p>4/ The law was tabled in March 2014 with subsequent fine-tuning in collaboration with Fund staff prior to its adoption in June.</p>	

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) sets out the understandings between the Jamaican authorities and the IMF regarding the definitions of quantitative performance criteria and indicative targets for the programme supported by the extended arrangement under the EFF.** It also describes the methods to be used in assessing the programme performance and the information requirements to ensure adequate monitoring of the targets. In addition, the TMU specifies the requirements under the continuous structural benchmark concerning discretionary tax waivers.
2. **For programme purposes, all foreign currency-related assets, liabilities and flows will be evaluated at “programme exchange rates” as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates.** The updated programme exchange rates are those that prevailed on December 31, 2014. Accordingly, the exchange rates for the purposes of the programme are show in Table 1.

Jamaican dollar to the US dollar	114.66
Jamaican dollar to the SDR	166.12
Jamaican dollar to the euro	139.21
Jamaican dollar to the Canadian dollar	97.69
Jamaican dollar to the British pound	177.68
1/ Average daily selling rates at the end of December 2014	

I. QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

3. **Definitions:** The central government for the purposes of the programme consists of the set of institutions currently covered under the state budget. The central government includes public bodies that are financed through the Consolidated Fund.
4. **The fiscal year starts on April 1 in each calendar year and ends on March 31 of the following year.**

A. Cumulative Floor of the Central Government Primary Balance

5. **Definitions:** The primary balance of the central government is defined as total revenues minus primary expenditure and covers non-interest government activities as specified in the budget.
6. **Revenues are recorded when the funds are transferred to a government revenue account.** Revenues will also include grants. Capital revenues will not include any revenues from asset sales proceeding from divestment operations. Central government primary expenditure is recorded on a cash basis and includes compensation payments, other recurrent expenditures and capital spending. Government-funded PPPs will be treated as traditional public procurements—the associated costs will be recorded as on-budget investment during the construction phase of the

project. Primary expenditure also includes transfers to other public bodies which are not self-financed. Costs associated with divestment operations or liquidation of public entities, such as cancellation of existing contracts or severance payments to workers will be allocated to current and capital expenditures, accordingly.

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

8. **To kick-start economic growth, the following growth-enhancing projects will be added to primary expenditures, accommodated by the 0.5 percent of GDP reduction in the central government primary surplus target for FY2016/17:** Rural Economic Development Initiatives (REDI), Rehabilitation of Irrigation Infrastructure (NIC), Islandwide Flood Damage Mitigation & Vector Control, Road Rehabilitation Project II, Major Infrastructure Development Programme (MIDP), Support to SMEs Sector, Support to PIMC Pipeline Projects, Contingency for Natural Disaster/Infrastructural Rehabilitation, BPO Expansion – Portmore and Montego Bay, Fiscal Administration Modernization Programme (FAMP), Strategic Public Sector Transformation Project, Jamaica Foundations for Competitiveness & Growth, Expansion/upgrading of educational Institutions Infrastructure, Education System Transformation Programme, Major Rural Farm Roads Rehabilitation, Drought Mitigation Programme in Farming Communities.

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

B. Cumulative Floor on Overall Balance of the Public Sector

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

11. **Public bodies consist of all self-financed public bodies, including the 17 “Selected Public Bodies” and “Other Public Bodies.”** The 17 “Selected Public Bodies” include: Airport Authority of Jamaica (AAJ); Human Employment and Resource Training Trust (HEART); Jamaica Mortgage Bank (JMB); Housing Agency of Jamaica (HAJ); National Housing Trust (NHT); National Insurance Fund (NIF); Development Bank of Jamaica (DBJ); National Water Commission (NWC); Petrojam; Petroleum Corporation of Jamaica (PCJ); Ports Authority of Jamaica (PAJ); Urban Development Corporation (UDC); Jamaica Urban Transit Company Ltd. (JUTC); Caymanas Track Ltd. (CTL); National Road Operating and Constructing Company Ltd. (NROCC); Petro-Ethanol; Clarendon Aluminum Production (CAP);. “Other Public Bodies” include: Road Maintenance Fund; Jamaica

Bauxite Mining Ltd.; Jamaica Bauxite Institute; Petroleum Company of Jamaica Ltd. (Petcom); Wigton Windfarm Ltd.; Broadcasting Commission of Jamaica; The Office of Utilities Regulation; The Office of the Registrar of Companies, Runaway Bay Water Company, Jamaica National Agency for Accreditation, Spectrum Management Authority; Sports Development Foundation; Bureau of Standards Jamaica; Factories Corporation of Jamaica Ltd.; Kingston Freezone Company Ltd.; Micro Investment Development Agency Ltd.; Montego Bay Freezone Company Ltd.; Postal Corporation of Jamaica Ltd.; Self Start Fund; Betting Gaming and Lotteries Commission; Culture, Health, Arts, Sports and Education Fund; Financial Services Commission; Jamaica Deposit Insurance Corporation, Jamaica Racing Commission, National Export-Import Bank of Jamaica Ltd.; PetroCaribe Development Fund; Tourism Enhancement Fund, The Public Accountancy Board; Students' Loan Bureau; National Health Fund; Cocoa Industry Board; Coffee Industry Board; Sugar Industry Authority; Overseas Examination Commission; Aeronautical Telecommunications Ltd.; Jamaica Civil Aviation Authority; Jamaica Ultimate Tire Company Ltd.; Jamaica Railway Corporation Ltd.; The Firearm Licensing Authority; Ports Management Security Corps Ltd.; Transport Authority.

12. **The overall balance of public bodies will be calculated from the Statement A's provided by the Public Enterprises Division of the Ministry of Finance and the Planning (MoFP) for each of the selected public bodies and the group of the other public bodies as defined above.** The definition of overall balance used is operational balance, plus capital account net of revenues (investment returns, minus capital expenditure, plus change in inventories), minus dividends and corporate taxes transferred to government, plus net other transfers from government. For the particular case of the National Housing Trust and the House Agency of Jamaica, capital account revenues will not be netted out since they do not refer to flows arising from assets sales but rather to contribution revenue and therefore will be included among recurrent revenue such as is done for pension funds. The definitions of "Selected Public Bodies" and "Other Public Bodies" will be adjusted as the process of public bodies' rationalization, including divestments and mergers, advances. However, this process will not affect the performance criterion unless specifically stated. All newly created entities, including from the merging of existing entities, will be incorporated in either of these two groups.

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

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

Table 2. Overall Balance of Petrojam (Baseline Projection)	
In billions of Jamaican dollars	
End-March 2016	-2.2
End-June 2016	0.0
End-September 2016	-3.0
End-December 2016	-2.3
End-March 2017	-1.0

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

C. Ceiling on the Change in the Stock of Central Government Direct Debt

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

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

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

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

D. Ceiling on Net Increase in Central Government Guaranteed Debt

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

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

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

23. **Adjuster:** In the case where the central government debt guarantees are called, the stock of central government guaranteed debt will be adjusted downwards in both the end-March of each year and the target date in order to preserve the performance criteria.

E. Ceiling on Central Government Accumulation of Domestic Arrears

24. **Definition:** Domestic arrears are defined as payments to residents determined by contractual obligations that remain unpaid 90 days after the due date. Under this definition, the due date refers to the date in which domestic debt payments are due according to the relevant contractual agreement, taking into account any contractual grace periods. Central government domestic arrears include arrears on domestic central government direct debt, including to suppliers and all recurrent and capital expenditure commitments. This accumulation is measured as the change in the stock of domestic arrears relative to the stock at end-March 2016, which stood at J\$21.0 billion.

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

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

F. Non-Accumulation of External Debt Payments Arrears

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

28. **Definitions:** External debt is determined according to the residency criterion.

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

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

¹ As defined in Guidelines on Public Debt Conditionality in Fund Arrangements, Decision No. 15688-(14/107)..

- ii. Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- iii. Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property. For the purpose of the programme, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

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

31. **Definitions:** Under this definition of debt set out above, external payments arrears consist of arrears of external debt obligations (principal and interest) falling due after March 31, 2015 that have not been paid at the time due, taking into account the grace periods specified in contractual agreements. Arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or rescheduling agreement is being sought are excluded from this definition.

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

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

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

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

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

G. Ceiling on Central Government Accumulation of Tax Refund Arrears

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

change in the stock of tax refund arrears relative to the stock at end-March 2016, which stood at J\$17.3 billion.

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

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

H. Floor on the Cumulative Change in Net International Reserves

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

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

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

43. **Adjusters:** NIR targets will be adjusted upward (downward) by the surplus (shortfall) in programme loan disbursements from multilateral institutions (the IBRD, IDB and CDB) relative to the baseline projection reported in Table 3. Programme loan disbursements are defined as external loan disbursements from official creditors that are usable for the financing of the consolidated government. NIR targets will be adjusted upward (downward) by the surplus (shortfall) in disbursements of budget support grants relative to the baseline projection reported in Table 3. NIR targets will also be adjusted upward (downward) by the surplus (shortfall) in IMF budget support purchases relative to the baseline projection reported in Table 3.

The NIR target will be adjusted upwards (downwards) by the amount by which, at a test date, the cumulative changes from end-December 2014 in BOJ's foreign exchange liabilities to residents with a maturity of less than one year (including banks' foreign currency deposits in BOJ) are higher (lower) than the baseline projection for this change reported in Table 4.

Table 3. External Program Disbursements (Baseline Projection)	
Cumulative flows from the beginning of the fiscal year	(In millions of US\$)
External loans from multilateral sources	
End-September 2015	158
End-December 2015	205
End-March 2016	231
End-June 2016	23
End-September 2016	147
End-December 2016	218
End-March 2017	233
Budget support grants	
End-September 2015	21
End-December 2015	21
End-March 2016	31
End-June 2016	0
End-September 2016	0
End-December 2016	0
End-March 2017	0
IMF budget support disbursements	
End-September 2015	0
End-December 2015	0
End-March 2016	0
End-June 2016	0
End-September 2016	0
End-December 2016	0
End-March 2017	0

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

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

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

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

Table 4. Reserve Liabilities Items for NIR Target Purposes	
(In millions of US\$) 1/	
BOJ's foreign liabilities to residents	
Outstanding stock	
End-December 2014	242.0
Cumulative change from end-December 2014	
End-September 2015	94.1
End-December 2015	9.3
End-March 2016	78.4
End-June 2016	238.1
End-September 2016	367.6
End-December 2016	469.3
End-March 2017	399.7
1/ Converted at the programme exchange rates.	

II. QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

A. Cumulative Floor on Central Government Tax Revenues

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

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

B. Floor on Central Government Social Spending

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

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

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

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

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

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

III. CONDITIONALITY ON TAX WAIVER REFORM

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

54. **For the purpose of this condition, discretionary waivers are defined as: any reduction in tax or customs duty payable, effected through the direct exercise by the Minister of**

Finance of his powers under the various tax statutes; in circumstances where there is no express provision for exemption in any statute.

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

IV. CONDITIONALITY ON USER-FUNDED PPPS

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

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

58. **For the purpose of this condition, the applicable GDP is the projected nominal GDP for the fiscal year published in the Fiscal Policy Paper tabled in parliament ahead of the adoption of the budget.** For FY2016/17, the projected nominal GDP used as a reference is J\$1,726 billion, as presented in Table 2H, part 2, Macroeconomic Framework, page 34.

V. INFORMATION REQUIREMENTS

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

Daily

- Net international reserves; nominal exchange rates; interest rates on BOJ repurchase agreements; total currency issued by the BOJ, deposits held by financial institutions at the BOJ; required and excess reserves of the banking sector in local and foreign currency, total liquidity assistance to banks through normal BOJ operations, including overdrafts; overnight interest rates; GOJ bond yields.
- Disbursements from the Financial System Support Fund, by institutions.
- Liquidity assistance to institutions from the BOJ, by institution.
- Bank of Jamaica purchases and sales of foreign currency, by transaction type (surrenders, public sector entities facility and outright purchases or sales including interventions).
- Amounts offered, demanded and placed in Bank of Jamaica open market operations, including rates on offer for each tenor and amounts maturing for each tenor.

- Amounts offered, demanded and placed in government of Jamaica auctions and primary issues; including minimum maximum and average bid rates.
- Daily foreign currency government of Jamaica debt payments (domestic and external).

Weekly

- Balance sheets of the core securities dealers (covering at least 70 percent of the market), including indicators of liquidity (net rollovers and rollover rate for repos and a 10 day maturity gap analysis), capital positions, details on sources of funding, including from external borrowing on margin and clarity on the status of loans (secured vs. unsecured). Weekly reports will be submitted within 10 days of the end of the period. Deposits in the banking system and total currency in circulation.

Monthly

- Central government operations including monthly cash flow to the end of the current fiscal year, with a lag of no more than four weeks after the closing of each month.
- Public entities' Statement A: consolidated and by institution for the "Selected Public Bodies" and consolidated for the "Other Public Bodies" with a lag of no more than six weeks after the closing of each month.
- Central government debt amortization and repayments, by instrument (J\$-denominated and US\$-denominated bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans). Includes government direct, government guaranteed and total. In the case of issuance of government guaranteed debt, include the name of the guaranteed individual/institution. The reporting lag should not exceed four weeks after the closing of each month.
- Balances of the Consolidated Fund and main revenue accounts needed to determine the cash position of the government.
- Stock of central government expenditure arrears.
- Stock of central government tax refund arrears.
- Stock of central government domestic and external debt arrears and BOJ external debt arrears.
- Central government spending on social protection programmes as defined for the indicative target on social spending.
- Central government debt stock by currency, as at end month, including by (i) creditor (official, commercial domestic, commercial external); (ii) instrument (J\$-denominated and US\$-denominated bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans); (iii) direct and guaranteed. The reporting lag should not exceed four weeks after the closing of each month.

- The maturity structure of Government debt (domestic and external). The reporting lag should not exceed four weeks after the closing of each month. Legal measures that affect the revenue of the central government (tax rates, import tariffs, exemptions, etc.).
- Balance sheet of the Bank of Jamaica within three weeks of month end.
- A summary of monetary accounts providing detailed information on the accounts of the Bank of Jamaica, commercial banks and the overall banking system. Including Bank of Jamaica outstanding open market operations by currency and maturity and a detailed decomposition on Bank of Jamaica and commercial bank net claims on the central government, selected public bodies and other public bodies.² This information should be received with a lag of no more than six weeks after the closing of each month.
- Profits of the Bank of Jamaica on a cash and accrual basis, including a detailed decomposition of cash profits and profits from foreign exchange operations with a lag of no more than three weeks from month end.
- Deposits in the banking system: current accounts, savings and time deposits within six weeks after month end. Average monthly interest rates on loans and deposits within two weeks of month end; weighted average deposit and loan rates within six weeks after month end.
- Financial statements of core securities dealers and insurance companies within six weeks of month end.
- The maturity profile of assets and liabilities of core securities dealers in buckets within six weeks of month end.
- Data on reserve liabilities items for NIR target purposes (Table 9) within three weeks after month end.
- A full set of monthly FSIs regularly calculated by the BOJ, including liquidity ratios, within eight weeks of month end.
- Monthly balance sheet data of deposit taking institutions, as reported to the BOJ, within four weeks of month end.
- Issuance of exempt distributions by financial and non-financial corporations, six weeks after month end.
- Imports and exports of goods, in US\$ million within twelve weeks after month end. Tourism indicators within four weeks after month end. Remittances' flows within four weeks after month end.
- Consumer price inflation, including by sub-components of the CPI index within four weeks after month end.

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

- The balance sheet of the PetroCaribe Development Fund with a lag of no more than six weeks after the closing of each month.
- Data on discretionary waivers, specifying those under the 'de minimis' cap, those under the broader cap and those covered by the exceptions from these caps.
- Data on tax waivers for charities and charitable giving.
- Data on the total loans value of all new user-funded PPPs, specifying the PPPs identified by the Office of the auditor General as involving only minimal contingent liabilities (including the absence of debt guarantees, demand or price guarantees or termination clauses that could imply a transfer of liabilities to the government).

Quarterly

- Holdings of government bonds (J\$-denominated and US\$-denominated) by holder category. The reporting lag should not exceed four weeks after the closing of each month (this would not be applicable to external and non-financial institutional holdings of GOJ global bonds as this information is not available to GOJ).
- Use of the PetroCaribe Development Fund, including loan portfolio by debtor and allocation of the liquidity funds in reserve within six weeks after month end.
- The stock of public entities non-guaranteed debt.
- Summary balance of payments within three months after quarter end. Revised outturn for the preceding quarters and quarterly projections for the forthcoming year, with a lag of no more than one month following receipt of the outturn for the quarter.
- Gross domestic product growth by sector, in real and nominal terms, including revised outturn for the preceding quarters within three months after quarter end; and projections for the next four quarters, with a lag no more than one month following receipt of the outturn for the quarter.
- Updated set of macroeconomic assumptions and programme indicators for the preceding and forthcoming four quarters within three months of quarter end. Main indicators to be included are: real/nominal GDP, inflation, interest rates, exchange rates, foreign reserves (gross and net), money (base money and M3), credit to the private sector, open market operations and public sector financing (demand and identified financing).
- BOJ's Quarterly Financial Stability Report.
- Quarterly income statement data of deposit taking institutions, as reported to the BOJ within eight weeks of the quarter end.
- Summary review of the securities dealer sector, within eight weeks of quarter end.
- Summary report of the insurance sector (based on current FSC quarterly report), within eight weeks of quarter end.

- Capital adequacy and profitability ratios (against regulatory minima) for DTI's and non-bank financial institutions within eight weeks of quarter end.
- FSC status report detailing compliance (and any remedial measures introduced to address any non-compliance) with the agreed guidelines for the operation of client holding accounts at the Jam Clear@ CSD and FSC independent verification of daily reconciliations using data provided by Jam Clear@ CSD. Reports are due within four weeks of end quarter.

Annual

- Financial statements of pension funds within six months of year end.
- Number of public sector workers paid by the consolidated fund by major categories.