Jamaica and the IMF

Press Release:
IMF Completes Second Review under the Extended Fund Facility Arrangement with Jamaica and Approves US$30.8 Million Disbursement
December 18, 2013

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

December 3, 2013

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Letter of Intent

Kingston, Jamaica
December 3, 2013

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

Dear Ms. Lagarde,

Jamaica has made a strong start in implementing its EFF-supported economic reform programme aimed at overcoming the long-standing problems of low growth and high debt. All quantitative fiscal and monetary performance criteria at end-June and at end-September 2013 were met, as were the associated indicative targets. The government has also implemented all of the structural benchmarks that were included in the programme. While economic growth remains weak and unemployment much too high, we are confident that the benefits of our strategy will become increasingly evident over time, as a more stable macroeconomic environment, a credible return to debt sustainability, and an improved business climate will attract new investments and result in durable job creation and increased prosperity.

The Government remains fully committed to meeting the objectives of the programme, as well as the specific targets set out in the April 2013 Memorandum of Economic and Financial Policies (MEFP), and its September 2013 supplement. In the fiscal area, the government will press ahead with implementing comprehensive tax reform, prepare and legislate the fiscal rule, and adopt a range of measures to strengthen public financial management. In the financial sector, the government is moving forward with reforms to facilitate the transition by securities dealers towards a more robust business model.

Appendix 1 to this letter is a further supplement to the MEFP, presenting performance under the EFF-supported programme so far, and updates some specific policies to meet the programme's ultimate objectives, including the associated quantitative targets and structural benchmarks. Appendix 2 is the updated Technical Memorandum of Understanding.

On the basis of our performance under the programme thus far, as well as our sincere commitment to the continued implementation of the program, including its proposed revisions, the government requests that the Executive Board of the IMF complete the second review of the extended arrangement under the Extended Fund Facility, modify the availability date for the purchase associated with the second review to December 18, 2013, approve the proposed revisions of performance criteria as well as new performance criteria for September 2014, and approve the third purchase under the arrangement of SDR 19.97 million.

The government believes that the policies described in the MEFP of April 17, 2013, the MEFP supplement of September 13, 2013, and the attached supplement are adequate to achieve the programme's objectives. However, if necessary, the government stands ready to take any additional measures that may be required. The government will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

The government will also provide the Fund staff with all the relevant information required to complete programme reviews and monitor performance on a timely basis. The government will observe the standard performance criteria against imposing or intensifying exchange restrictions, introducing or modifying multiple currency practices, concluding bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement and imposing or intensifying import restrictions for balance of payments reasons.

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

Very truly yours,

/s/

Peter D. Phillips,
Minister of Finance and Planning
Jamaica

/s/

Brian Wynter
Governor, Bank of Jamaica
Jamaica

Attachment 1. Jamaica—Supplementary Memorandum of Economic and Financial Policies

I. Background and Recent Developments

1. On May 1, 2013 the Fund's Executive Board approved a four-year extended arrangement under the EFF in support of Jamaica's economic reform programme. This programme includes critical steps and policy reforms to significantly improve the fiscal and debt positions and growth-enhancing structural reforms. The First Review of the program was completed on September 30, 2013.

2. Economic performance during the first half year of the programme period has been mixed, reflecting a challenging economic environment.

- **Economic Growth.** Real GDP is estimated to have increased slightly in the first half of FY2013/14, with growth in the July to September quarter estimated at 0.6 percent, supported by growth in tourism, mining and agriculture. Growth for 2013/14 remains projected at 0.8 percent.
- **Inflation.** Consumer price inflation reached 10.3 percent (year-on-year) in October 2013, reflecting increased administered prices and the pass-through of nominal depreciation into domestic prices.
- **Balance of Payments.** The current account deficit is now projected at 10 percent of GDP in 2013/14, down from 12.5 percent in 2012/13, supported by nominal exchange rate depreciation. Net international reserves (NIR) declined to US$910 million by end-September 2013, largely reflecting seasonal effects, and in compliance with the program's NIR target. As of end-November, reserves amounted to US$836 million. A gradual increase in reserves is expected for the remainder of the fiscal year due to growth in multilateral inflows, as well as incremental improvements in net private capital flows.
- **Public Finances.** Fiscal performance in the first half of the year was mixed. Relative to the budget, revenues underperformed mainly due to lower imports and weak economic and labor market conditions. For the same reasons, the new tax measures implemented at the beginning of the fiscal year are not yielding the intended impacts. At the same time, both recurrent and capital expenditure have been contained. As a result, all fiscal performance criteria were met including the primary balance target, the overall public sector balance target, and the indicative targets on revenues and social expenditure.

II. Performance Under the Programme

3. Overall policy implementation under the programme remains strong and structural reforms are progressing. All quantitative performance targets and indicative targets for end-September were met (Table 1). All structural benchmarks to date have also been met in a timely manner, with one exception: the tabling of the fiscal incentives legislation, originally scheduled for end-September, was subject to a minor delay. This delay does not affect the effectiveness of the new incentive regime.

III. POLICIES FOR THE REMAINDER OF 2013/14 AND BEYOND

4. **The government remains fully committed to the reform strategy and the supporting policies outlined in the April 2013 MEFP and its September 2013 supplement.** Unless modified below, that strategy and those policies remain valid in full. The quantitative targets that serve as performance criteria and indicative targets under the programme have been updated, and extended through September 2014. These updated targets are presented in Table 1. The structural conditionality under the program, incorporating several modifications discussed below, is presented in Table 2.

5. **The Government is committed to implementing the budget for 2013/14 and meeting the associated program conditions.** Given the need to address possible shortfalls in revenue, we have identified expenditure contingencies equivalent to 0.5 percent of GDP, including a wide range of current and capital spending categories. The performance of the public bodies will be monitored closely to ensure that the overall balance of the public sector is met, and price adjustments and other measures will be implemented as needed to ensure cost-recovery. At the same time, given the inherent complexity of controlling the performance of Petrojam on a cash basis (with the timing and sourcing of oil purchases resulting in large swings), a new cumulative adjuster will be included for the performance criterion on the public sector balance of up to J$3.5 billion (over the year) that accommodates excesses or shortfalls of PetroJam overall balance relative to its projected path.

Tax Reforms

6. **Comprehensive tax reform is a key plank of our economic reform programme.** The tax system needs to become much more supportive of economic growth and employment creation. This will be done by simplifying the system, reducing economic distortions, eliminating ministerial discretion in the granting of incentives, broadening the tax base, and reducing rates, while keeping the overall tax reform revenue neutral. The tax reform measures will be based on these principles such that they will result in a reduction of tax expenditures from around 6 percent of GDP in recent years to 2½ percent by 2015/16. The new system should lead to a significant reduction in the cost of compliance, and will be effective at the start of FY2014/15. As first steps of the reform, a Charities Act was tabled in parliament in mid-September 2013; and Fiscal Incentive Legislative Instruments in October.[1] The government is also finalizing a blueprint of all the key elements of the reform.

7. **The Charities Act establishes a new and strict registration process for charitable organizations**. Effective 1 December 2013, all new applications (organizations/individuals) must be

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[1] These instruments comprise the Income Tax Relief (Large Scale Projects and Pioneer Industries) Act, 2013, and the Fiscal Incentives (Miscelleaneous Provision) Act, 2013.

registered under the new regime, in order to be eligible for exemptions granted under the Act. A transitional period of six months has been provided under the Act to existing charities, to facilitate registration, at the end of which if not registered as per the new regime, these entities would no longer qualify to benefit from requisite exemptions.

8. The Fiscal Incentives Legislative Instruments will put in place a rule-based regime for limited tax incentives that will replace existing (mostly sectoral) schemes. Incentives outside the Fiscal Incentives Legislative Instruments will be explicitly cancelled by the Instruments, which will become the only source of such incentives, except in the instances stated below. New incentives will take the form of tax credits for personal and corporate income taxes only, and incentives will be defined as the amount credited against the CIT/PIT payable in any fiscal year. There will be no ministerial discretion in granting tax incentives. Incentives provided under the Urban Renewal Programme will be maintained at this stage, as will the existing incentives for venture capital investment under the income tax act. The existing incentives under the Bauxite and Alumina Industries Act will also be retained. For pioneer/"mega" projects that are growth-enhancing, specific tax credits could be provided in the context of the budget, with parliamentary approval, up to an overall annual cap of 0.25 percent GDP on this tax expenditure. The existing regime for the establishment and operation of Export Free Zones from which limited licensed activities can be conducted under strict conditions will be maintained at this stage. This regime will be subject to a review to ensure compliance with commitments to the WTO and to ensure that the covered enterprises will be subject to CIT on profits.

9. The main elements of the reform of the Corporate Income Tax (CIT) are:

- Regarding **tax rates**, the distinction between regulated and unregulated companies will be maintained for now. For regulated companies, the headline rate will remain at 33.33 percent. The headline CIT rate for unregulated entities will be harmonized at 25 percent, eliminating the 5 percent surcharge on specified unregulated entities.
- An across-the-board **Employment Tax Credit (ETC)** will apply to registered companies engaged in the conduct of a trade, based on a percentage of specified labour costs. The computation of the ETC will be transparent and verifiable, and based on payroll tax payments by registered companies. The ETC rate will be specified as the combined HEART, NIS, NHT and Education Tax payments, capped at 30 percent of income tax chargeable in respect of trading income (as adjusted for tax purposes) and net of tax losses carried forward claimed in the year of assessment (subject to the cap below). Income tax chargeable on non-trading income will not be eligible for reduction via use of ETC, and regulated companies will not be eligible for the ETC.
- Increased **Initial Capital Allowances (ICAs)** will apply to specified newly acquired (i.e. new and used) plant and equipment. ICAs on plant and equipment will be increased to 25 percent (from 20 percent), and their application will be broadened to a wider range of eligible plant and equipment. In addition, ICAs will be more broadly applied to buildings and structures to include a wider range of industrial buildings and structures (including hotels and hospitals). However, ICAs would be applicable only to new investment (i.e. original construction, refurbishing and

renovation) in such industrial buildings and structures. A straight-line method of capital allowances will replace the reducing balance method.

- A cap of 50 percent of chargeable income (before deduction of tax losses) will be established on the amount of **losses** of previous years that can be used to offset taxable CIT and PIT income. This restriction shall not apply where (a) the period of assessment is less than 5 years after the year of incorporation and/or registration of the entity, or (b) the turnover of the entity is below J$3 million. Unused tax losses can be carried forward.
- Entities choosing **grandfathering** (i.e., using pre-existing incentive schemes) will not be entitled to new incentives until those grandfathered incentives have expired or until they opt out of their grandfathered regime, as per procedures described in the Fiscal Incentives Legislative Instruments. Moreover, the 10 percent non-standard GCT rate for tourism services will only be accessible under the new fiscal regime. Companies choosing grandfathering of their CIT incentives will be required to pay the standard GCT rate of 16.5 percent. The government will conduct an entity by entity review of all grandfathered entities and of their regime by end-2014/15 (*new structural benchmark for January 2015*), to serve as a basis for discussion to speed up transition to the new regime by mutual agreement between authorities and entities.
- If a tax audit determines that the company was not current on its obligations in any year, then in addition to the usually applicable penalties the new incentive regime will include provisions to allow for a claw back of tax incentive credits granted in that year, and a suspension of eligibility for future tax incentive credits until compliance is assessed to be satisfactory.
- A **Minimum Business Tax** (MBT) will be established, payable by locally registered companies equal to a flat nominal amount, periodically specified, and initially at J$60,000. The MBT will apply to every registered company, and every individual who operates as a business and who is registered or liable for registration for GCT purposes. The MBT payable will be creditable against income tax chargeable for the year of the assessment.
- The system of tax relief for companies listed on the **Junior Stock Exchange Market** (JSEM)—with market capitalization not exceeding US$5 million—will gradually be phased out. For companies listing from January 1, 2017, no special relief from CIT would be available. Companies that list on the JSEM from January 1, 2014 (the effective date of the new fiscal incentive legislation) until December 31, 2016 will be granted income tax relief for a maximum period of five years (with an income tax relief rate of 100 percent). Companies that are already listed or list prior to January 1, 2014 will be grandfathered for the remainder of their initial ten year concession period. Companies benefitting from the JSEM income tax relief would not be eligible for the Employment Tax Credit and specified incentives for pioneer activities until after the expiration of their concession period. However, firms may opt to forgo JSEM income tax relief to become eligible for the tax treatment under the new Fiscal Incentives Act. Tax expenditures associated with JSEM income tax relief granted to entities will be capped at a level to be prescribed by the Minister of Finance and Planning in consultation with Fund staff.

10. Further reforms to the Income Tax legislation include:

- The amalgamation of statutory payroll deductions.
- Over the medium term, a convergence of personal and corporate income tax rates to a uniform standard headline rate is envisaged, subject to available fiscal space and the attainment of revenue targets.

11. The main elements of the reform of the General Consumption Tax (GCT) are:

- The zero-rating for government purchases will be eliminated;
- Tax exemptions will be reduced;
- A study will be conducted by March 2014 on the scope for imposing GCT on petroleum products; its conclusions will guide possible implementation in FY2014/15;
- And startup companies will be allowed to claim GCT refunds for excess credit immediately.

12. An amendment to the Customs Act was tabled in parliament in November 2013. The main elements of the reform of foreign trade tariffs are:

- The tariff structure will be simplified by reducing import tariff dispersion, eliminating anomalies and opportunities for misclassification and substantially reducing higher rates;
- Import duties will be capped for non-agricultural imports, normally at 20 percent, and in exceptional cases at 40 percent. For agricultural imports, tariff rates at or below 40 percent will generally be reduced to the default rate of 20 percent, however, in exceptional cases, the CET rates above 50 percent will be maintained (poultry, milk and cream, including milk powder, and vegetables). In any case, these rates will be held compliant with CARICOM/CET agreements;
- The Government also intends to promote amendments to the CARICOM tariff regime with the objective of reducing tariff dispersion further;
- In addition, while maintaining compliance with the CARICOM tariff regime, import duties on essential inputs for domestic producers can be zero rated. The government will seek IDB support for strengthening the process to minimize abuse, through lists of eligible inputs, strong administrative controls, and appropriate penalties. The lists presenting such inputs will be subject to parliamentary review.

13. Reforms to strengthen tax and customs administration are proceeding. In October 2013, we put in place the necessary regulations to implement a write-off programme. Further steps to improve tax and customs administration will be guided by the Tax Reform action plan prepared in collaboration with the IDB. In this context, next steps include:

- Ensuring the effectiveness of the expanded LTO through training, infrastructure, and improved management.
- Further revisions to the Revenue Administration Act to strengthen the powers of the Tax Administration Jamaica (TAJ) and the Jamaica Customs Administration (JCA) to collect outstanding arrears (including powers to seize and sell taxpayers' property, harmonized penalties and fines, and mandatory income tax filing for every business), to be in place by March 2014.
- Concluding discussions with banks to reduce excessive charges for processing tax and customs revenue receipts. To achieve this, the government has established a high-level committee. New e–payment options will be introduced by end-December 2013.
- Establishing concrete steps to increase electronic filing, based on the recent amendment to the RAA. In particular, by end-March 2014, e-filing will be mandatory for LTO clients with respect to the GCT and CIT and for all clients with respect to payroll taxes (new structural benchmark).
- Actions regarding the TAJ integrated tax administration IT system: contracting the vendor for the product (December 2013), and commencing the customization of the software (February 2014) with phased implementation to be completed—for the GCT, SCT, income taxes, and PAYE—over 14 months. This timetable is consistent with an action plan developed in consultation with the IDB.
- Actions regarding the JCA integrated IT system, following the publication of the RFP. In particular, we will implement ASYCUDA, and reengineer the associated work processes in line with this system during 2014.
- Utilization of RTGS for payment of all duties and taxes on imports for all entries by March 2014. Phase I was implemented January 2013, for travel tax and passenger levy payments. Phase II is to include duties and other taxes, which is scheduled to begin March 2014.
- The continued improvement of JCA accounting and financial systems, through the introduction of ACCPAC (Accrual Accounting System) by March 2014, in compliance with the Executive Agency Regulatory Framework.
- Establish the Revenue Appeals Division as a separate, independent entity, with World Bank support.

A Fiscal Rule

14. **The government has prepared a conceptual framework for a fiscal rule to enhance fiscal transparency, and lock in the gains of fiscal consolidation.** The transparency and automaticity of fiscal adjustment will be enhanced by an explicit, time-bound adjustment path to sustainability. Key elements are:

- The framework aims to limit the annual budgeted overall fiscal deficits of the public sector (covering all fiscal activities), to achieve a reduction in public debt to no more than **60 percent of GDP by 2025/26**.

- The rule will establish an **automatic correction mechanism** that would be triggered by substantial cumulative deviations from the annual overall balance target. Ex post deviations from the fiscal balance target will be debited in a notional account. Once the cumulative deviations exceed a pre-specified threshold, additional fiscal adjustment would be required in subsequent fiscal years to correct for these deviations to bring fiscal performance back in line with the fiscal rule. The application of the automatic correction mechanism can exempt specified social spending from potential adjustment.

- The rule will also include an **escape clause**, limited to major adverse shocks and triggered only with parliamentary approval. The clause will pre-define a clear list of events or shocks that could have a serious adverse impact on public finances, and specify measurable conditions for triggering the clause, such as declines in GDP or fiscal revenues. Independent validation of the event or shock will be required before the escape clause can be initiated by the Ministry of Finance and Planning.

- **Coverage** of the fiscal rule will take into account all fiscal activities associated with the public sector, as well the fiscal implications of PPPs (capturing all associated actual or contingent fiscal liabilities and risks).

- The effectiveness of the current **enforcement and compliance regime** will be further enhanced to encourage greater ex ante compliance with the new rules-based framework. Measures will include transparency and accountability through parliamentary hearings and public statements by officials. The Minister of Finance and Planning will be required to explain deviations from the fiscal rule in a mid-term budget review in parliament, and outline corrective steps to get back on track with the annual fiscal rule target.

15. The next steps leading to implementation of the fiscal rule are now being put in place, to ensure that the fiscal rule can take effect starting with the next (2014/15) fiscal year:

- **The government will initiate a broad public information campaign on the objectives and features of a new fiscal rule before its legal implementation.**
- **The rule will be embedded in an effective legal framework.** The relevant existing legislation (in the Financial Administration and Audit (FAA) Act, the Public Bodies Management and Accountability (PBMA) Act, and the Public Debt Management Act (PDMA) will be amended to implement the fiscal rule. As experience is gained under the rules-based framework, consultations with public stakeholders will continue on possible steps for further strengthening the legal foundations of the fiscal rule.
- **Approval by Cabinet of the conceptual framework for the fiscal rule is foreseen by end-December, 2013.**
- **The government will develop mechanisms to closely monitor possible fiscal costs and contingencies associated with possible PPPs.** In particular, the Ministry of Finance will develop the capacity to: (i) analyze PPP contracts, which includes the proper identification of direct fiscal

impacts and valuation of contingent obligations to ensure consistency with the fiscal rule; (ii) disclose fiscal risks (both explicit and implicit); and (iii) conduct value-for-money analyses.

- **The capacity of the Office of the Auditor General (OAG) will be augmented**, to allow it to provide an independent assessment of the macroeconomic and budget forecasts underpinning the budget, as well as the quality of adjustment measures, and the proper treatment of PPPs. Additional resources will be provided to the OAG so that it can recruit additional experts in public finance and macroeconomics.
- **The government will also consider legal options for strengthening the sanctions regime to enhance the credibility of the fiscal rules.** Possible avenues include clarifying the legal possibility of the non-renewal or dismissal of public officials for non-compliance; strengthening the oversight role of Parliament in reviewing Ministerial actions on recommendations by the Attorney General and the Auditor General; reviewing the low cap on money penalties; and aligning the sanctions process for government departments and public bodies for a more equitable (and streamlined) process.

Reforms to Public Financial Management and the Budget Process

16. In line with the program, the government has updated its action plan for public financial management reform. The government is committed to its implementation, in collaboration with its development partners. In this context:

- The central treasury management system (CTMS), which has been established ahead of schedule (existing end-March 2014 structural benchmark), will be strengthened by including modules for the tracking of expenditures.
- The Accountant General's Department (AGD) will be the Treasurer of the single treasury account, and the process for transitioning of the AGD into a modern treasury department by March 2016 commenced in April 2013 with a consultancy to develop a strategy to guide the transition.
- The adjusted Chart of Accounts will be implemented by November 2014.
- The GOJ will strengthen the efficiency and quality of the GOJ procurement process thereby improving the ease of doing business and reducing costs by:
    - Implementing the Electronic Tendering System which will be procured by March 31, 2014 and be implemented in five pilot entities during the financial year 2014/15.
    - The publication of a GOJ Public Procurement Page in the print media by January 2014 which will enable procurement management through a centralized process.

17. In addition, the government will prioritize reforms that are needed to underpin the forthcoming fiscal rule:

- In October, the cabinet approved a detailed budget calendar for the 2014/15 budget, thereby meeting the structural benchmark in this area. A budget for FY2014/15 that is consistent with and supports our economic program will be tabled by end-April 2014 (*new structural benchmark*).

- To improve public investment planning, a more unified treatment of all public investments is envisaged, so that planning is done in a more managed and consistent manner, under the improved Public Investment Management System (PIMS), designed with World Bank support. A comprehensive Public Sector Investment Program (PSIP) will be tabled in parliament by end-April 2014 (*new structural benchmark*), as a rolling five-year plan, comprised of Cabinet-approved, prioritized investment projects, to be reviewed on a regular basis. The improved PIMS will be supported by a high-level Public Investment Management Committee, and the creation of a Project Data Bank.
- The government has prepared a work plan to strengthen budget preparation, guided by recent FAD TA on the fiscal rule. Key elements include establishing a permanent binding budget calendar (envisaging budget approval prior to the fiscal year, starting with the budget for FY2015/16, to be approved by Cabinet by May 2014), early and accurate budget envelopes and priorities, and a policy to limit the use of virements (authorizing the transfer of funds within the budget and of ex-post regularization of unbudgeted spending through supplementary budgets (to be completed and approved by June 2014). A further priority will be to strengthen the development of realistic budget apportionment plans.
- Improving the revenue forecasting to avoid continuous deficit bias will be a policy priority. For this purpose, we have requested technical assistance, with funding from CIDA.
- The government has also prepared a work plan to strengthen procedures for budget execution and cash management. In order to improve the Commitment Planning and Control system in central government, an automated Purchase Order Module will be added to the FinMan PFM system. In addition the Commitment Planning and Control Module will be activated. The Upgraded Commitment Control System and the Purchase Order Module are to be:
    - a) Developed and tested by December 31, 2013.
    - b) Piloted in the Ministry of Finance and Planning between January and February 2014.
    - c) Implemented in all MDAs by April 1, 2014.
- Improving cash and debt management is a priority and technical assistance will support reforms in these areas: a) improve cash flow forecasting techniques and develop reliable forecasts of cash flows and more timely monitoring through the Treasury Single Account (TSA) system; b) enhance the TSA in terms of coverage and procedures; c) develop debt management actions based on the established debt strategy, which is linked to fiscal strategy, and train staff in the middle office of the debt management branch.

Debt Reduction

18. The scheduled reduction in public debt through debt-asset swaps and asset sales and a reduction in guarantees has progressed in line with the programme. The government will establish the legal and administrative processes involved as well as a workplan for their completion. In June 2013, the GOJ completed a preliminary valuation of assets that will be used to reduce public debt by at least 1.0 percent of GDP. In designing these transactions, the government will seek to ensure sound public sector governance. A reduction in guaranteed debt by at least one percent of GDP will also be implemented. Furthermore, the government is committed to ensuring that any new debt guarantees will be consistent with the applicable limits under the Public Debt Management Act.

Public Sector Reform

19. The government remains committed to improving the efficiency, quality and cost effectiveness of the public sector. The Fiscal Responsibility Framework sets a target for reducing the size of the wage bill to 9 percent of GDP by March 2016. The terms of reference for technical assistance for the review of public sector employment and remuneration has now been completed and a consultant from the IDB has been contracted, and the review is expected to be finalized by end-March 2014 (*unchanged structural benchmark*). To support a rationalization of public sector employment, we will improve the public service databases in e-Census by ensuring that it is up to date and covers all Ministries, Departments and Agencies (MDAs) by end-March 2014. The procurement of the human resources software system (the enterprise HR system) is progressing and is expected to be contracted by end-May 2014. The implementation of the system is expected to be completed by end-September 2014 for the TAJ and the JCA. Public sector pension reform aimed at ensuring that the system is sustainable in the long run, with more efficient management of public pensions and improved monitoring arrangements, is underway with the support of the World Bank. The White Paper on pension reform was approved by cabinet in October and is expected to be tabled by end-December 2013. The new public sector pension system is expected to be implemented by 2016, with the support of the World Bank.

IV. FINANCIAL SECTOR REFORMS

20. The government confirms its intention to phase out the retail repo model over time and allow the sector to provide a wider range of financing services, including collective investment schemes (CIS). To achieve this objective, as a first step, efforts will be accelerated to make less risky business models available to securities dealers. In particular, by end-December 2013, the authorities will: (i) amend the Securities Act and attendant regulations to establish a comprehensive framework for the regulation of CIS; (ii) amend the income tax law to remove double taxation of CIS; (iii) reform the Companies Act to eliminate (or exempt CIS from) the need to register unit-holders in the companies' registry; and (iv) publicly commit to a timetable for raising the cap on investments in foreign securities from 5 percent of assets to at least 25 percent by end-2015, and removing the cap by end-2016 unless extraordinary circumstances require a reassessment (*unchanged structural benchmark*).

21. Detailed steps for the securities dealers sector reforms are being prepared in collaboration with Fund staff, to reduce the risks of the retail repo product until it is phased out. We have developed a concrete and comprehensive plan of action with specific deadlines, covering: (i) legal and regulatory reforms (e.g. to the prudential framework for securities dealers and regulation for a master repo agreement, among others); (ii) effective monitoring and additional reporting to address post-NDX vulnerabilities by the Financial Services Commission (FSC), as well as enhanced stress testing by the FSC and Bank of Jamaica (BOJ); (iii) sequencing and timing of reforms; and (iv) in consultation with the Fund, contingency planning, including improving the insolvency regime that deals with failures of securities dealers.

22. In consultation with Fund staff, the government will establish a distinct treatment for retail repo client interests in the legal and regulatory framework in order to protect their interests prior to and in the event of the insolvency of a securities dealer, including a single, local master repurchase agreement for retail repo transactions that defines the parameters for client disclosure and for dealer substitution of underlying collateral (structural benchmark, March 2014). In line with the structural benchmark, we intend to mitigate the risks to retail repos clients by establishing a Trust to hold the underlying securities on their behalf during the transition period for the phasing out of the retail repo business model and will have the legal and regulatory framework in force by end-March 2014 to facilitate the migration of the retail repos to the Trust. The framework will comprise the (1) standardized legal documentation for the repo transactions, including a master repurchase agreement and trust deed; (2) reporting and other regulatory requirements for the securities dealers who are parties to retail repurchase agreement; (3) reporting and other regulatory requirements for the Jamaica Stock Exchange entities that will serve as custodian and trustee with respect to the trust arrangement; and (4) definitive legal treatment for the retail repo client interest in the event of a dealer's insolvency. The Trust will be responsible for the custody of the securities underlying retail repo transactions. It will also facilitate the taking of appropriate actions in the event of a transaction failure or default. A key function of the Trust arrangement will be to ensure that securities are allocated to retail repo clients on a one-to-one basis, and that such securities would be held apart from the dealer’s estate in the event of its insolvency. The Trust arrangement is intended to ensure that funds and securities flow in accordance with the terms of the repo agreement. A high-level Steering Committee with representation of the Ministry of Finance and Planning, the BOJ, the FSC and the JSE has been set up to provide oversight in setting up the Trust arrangement.

23. A gradual tightening of prudential standards envisaged over the medium term will facilitate the phasing out of the retail repo model. This could include a gradual tapering of the intermediation ratio, as well as tightening of capital and leverage ratios, implementing a minimum transaction size of retail repos, and regulating the ability of investors to close down their repo positions early, prior to the contractual maturity date.

V. MONETARY AND EXCHANGE RATE POLICY

24. Monetary policy remains aimed at achieving single digit inflation within a flexible exchange rate regime. For FY2013/14, the BOJ’s forecast for inflation remains in the range of 8.5 percent to 10.5 percent. Over the longer term, the objective is to achieve a gradual reduction of inflation to a rate that is consistent with that of our main trading partners.

25. The BOJ will continue to ensure that liquidity in the financial system is appropriate. Following the National Debt Exchange (NDX), the implementation of CTMS, and the BOJ's open market policies, the financial system faced liquidity pressures. To counter these developments, starting mid-September 2013, the BOJ has been conducting repo operations to inject liquidity into the financial system. Further, by end-December 2013, the Bank will establish a standing facility for overnight access to liquidity for commercial banks. The BOJ will continue monitoring developments in the money markets and take the necessary actions to ensure that financial institutions operate with appropriate levels of liquid resources.

26. The BOJ is developing an operational agenda to allow a move towards inflation targeting over the medium term. The BOJ will develop a timetable for establishing the basic requirements for implementing an inflation targeting regime. This agenda will be prepared by end-January 2014, and key actions are expected to be incorporated in future updates of the MEFP. In this context, the BOJ will, for example, identify specific policy actions to improve the operations of the foreign exchange market to facilitate better information discovery and deal more efficiently with volatility.

27. Key recommendations of the updated safeguards assessment are now being implemented. Amendments to the Bank of Jamaica Act to strengthen the governance and the autonomy of the Bank are currently being considered and a Cabinet decision on the way forward is envisaged by May 2014. This will strengthen the institutional framework for monetary policy. By end-December 2013, the government and the BOJ will prepare a Memorandum of Understanding to clarify the treatment of past BOJ losses, and to formalize the policy of not distributing unrealized valuation gains to the government.

Growth Enhancing Reforms

28. Actions for promoting growth by improving the business climate are on track. The National Competitiveness Council, established to improve the business climate, has identified a number of key reforms, addressing the most critical constraints facing the private sector. With the help of the World Bank, the government is addressing investment climate issues pertaining to construction permits, trading across borders, business registration, and paying taxes. A new tracking system (AMANDA) will allow the government to track approval of construction permits across all parish councils in Jamaica. With IDB support, land titling is being expanded under the Land Administration and Management Program (LAMP). Under this program, around 3,000 new titles were issued between 2011 and 2013. Legislation to create a secured interest in personal property will be passed in parliament in December, 2013. Preparations for establishing a central collateral registry (an end-December 2013 structural benchmark) are well underway. Actions toward parliamentary passage of an Insolvency Act are proceeding as planned, with the tabling of the Bill in parliament in December 2013. Steps have been taken to implement the use of a multi-purpose registration instrument that will streamline the business registration process (December 2013). Plans to establish a Port Community System (PCS) to electronically integrate and streamline export and import procedures are underway, with completion of negotiations with the preferred bidder by

January 2014. A phased roll-out of the PCS is expected to start in March 2014, with complete implementation by end-2015/16.

29. Strategic investments to establish Jamaica as a logistics hub are well underway. The 2015 expansion of the Panama Canal could result in vessels with significantly larger capacity entering the Caribbean and will create opportunities to establish Jamaica as a logistics hub. Several projects to support this initiative are moving forward, including (i) phased development of the Caymanas Economic Zone; (ii) privatization of the Kingston Container Terminal; and (iii) privatization of the Norman Manley International Airport, with IFC support.

30. Reducing the cost of electricity is critical to improve competitiveness. Costs are high owing to the dominance of oil in generating electricity, small-scale and aging equipment, and high losses. Several projects and initiatives to achieve fuel-source diversification, facilitate energy conservation, liberalize the electricity market and reduce the cost of energy are moving ahead, with construction of a new 360 Megawatt Plant—the centerpiece of the medium-term energy strategy—scheduled to begin in January 2014. Completion of this facility in early 2016 is expected to reduce the cost of electricity and thereby address a major obstacle to growth. In addition, with World Bank support, we have prepared updates to the Energy Act that clarify and codify the roles and responsibilities of the main actors in the sector, including the government, the regulator, the utilities, and the independent power producers. These are expected to be submitted to parliament by end-March 2014.

31. An increase in financing to and support for micro, small and medium-sized enterprises (MSMEs) will also support growth. The roll-out of the mobile money initiative, aimed at providing greater access to financial services to underserved entities including MSMEs is expected to be completed by September 2014. In addition, of the two credit bureaus that are licensed, one has commenced operations. The Development Bank of Jamaica is rapidly expanding its credit to MSMEs, and the Jamaica Business Development Corporation is increasing its business development support in various ways, including training and incubator services.

32. The new Agro Parks are now contributing to an increase in agricultural production. Three have already been established with the help of the European Union; four more will be in operation by March 2014 (with IDB support), with the remaining two expected to start production during FY2014/15. Establishing better links between the agricultural sector and the tourism industry is an important priority, and is actively supported by the Tourism Linkages Council.

33. Labor market reforms are progressing. Based on a White Paper that was tabled in September 2013, flexible work arrangements will be established by end-2013/14. Based on drafting instructions issued to the Chief Parliamentary Council (CPC), the necessary amendments to legislation will be enacted to remove impediments to the implementation of flexible work arrangements, and a public education campaign is planned to promote the use of these arrangements.

Reform of Social Spending

34. In line with the programme, the government is strengthening the social protection framework. Increases in the benefit amounts payable under PATH were effected in the August payment period, with an overall increase in PATH benefits of 15 percent, and a 67 percent increase to elderly beneficiaries. A graduation strategy for PATH households was defined by the government in July 2013 (and presented to Cabinet in November 2013). This strategy also covers the strengthening of agency networks and broad institutional strengthening to support the Steps-to-Work programme which is an integral part of the graduation strategy. A recertification exercise is being conducted on 38,000 PATH households, and field work for the recertification has been completed. Technical services are now being recruited to analyze the data and provide recommendations, with World Bank assistance. Within the context of Effective Social Protection articulated in Vision 2030 Jamaica—National Development Plan, progress continued towards the development of a comprehensive Social Protection Strategy. The final draft of this strategy is now being finalized following an extensive review during September and October 2013. The document is expected to be completed and submitted to the Cabinet by December 2013.

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

(In billions of Jamaican dollars)

	2012	2013					2014		
	End-Dec.	End-Mar.	End-Jun.	End-Sep.	End-Sep.	End-Dec.	End-Mar.	End-Jun.	End-Sep.
	Actual	Actual	Actual	Prog.	Actual	PC	PC	PC	Proposed PC
Fiscal targets									
1. Primary balance of the central government (floor) 3/	39.1	37.8	17.1	38.2	39.5	61.6	111.5	15.5	38.4
2. Tax Revenues (floor) 3/8/	225.0	315.3	78.7	150.4	162.9	232.7	357.5	82.7	166.0
3. Overall balance of the public sector (floor) 3/	-47.6	-52.7	-12.4	-21.6	-14.6	-37.3	-6.7	-14.4	-30.2
4. Central government direct debt (ceiling) 3/4/	1558.7	29.1	4.9	51.4	36.3	92.9	70.3	-2.0	0.9
5. Central government guaranteed debt (ceiling) 3/	166.7	6.5	0.3	-13.1	-13.4	-13.0	-14.0	4.0	2.7
6. Central government accumulation of domestic arrears (ceiling) 5/11/12/	n.a.	21.6	-0.1	0.0	-1.4	0.0	0.0	0.0	0.0
7. Central government accumulation of tax refund arrears (ceiling) 6/11/12/	n.a.	24.6	-0.1	0.0	-0.8	0.0	0.0	0.0	0.0
8. Consolidated government accumulation of external debt payment arrears (ceiling) 7/11/12/	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9. Social spending (floor) 8/9/	…	18.2	4.1	8.3	9.5	14.4	20.1	4.2	8.9
Monetary targets									
10. Cumulative change in net international reserves (floor) 7/10/	1138.5	-240.7	-135.8	-242.3	-226.1	-220.5	101.1	121.5	114.5
11. Cummulative change in net domestic assets (ceiling) 10/	-9.5	16.3	5.4	16.2	15.7	26.4	-4.2	-7.3	-5.3

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ Including modified performance criteria.
3/ Cumulative flows from April 1 through March 31.
4/ Excludes government guaranteed debt. The central government direct debt excludes IMF credits.
5/ Includes debt payments, supplies and other committed spending as per contractual obligations.
6/ Includes tax refund arrears as stipulated by law.
7/ In millions of U.S. dollars.
8/ Indicative target.
9/ Defined as a minimum annual expenditure on specified social protection initiatives and programmes.
10/ Cumulative change from end-December 2012.
11/ Continuous performance criterion.
12/ March 2013 numbers refer to stock outstanding as of end-March 2013.

Table 2. Jamaica: Structural Program Conditionality

Measures	Status/Timing	
Structural Benchmarks	**Timing**	**Implementation status**
Institutional fiscal reforms		
1. Government to table in parliament a budget in line with program commitments.	April 30, 2013	Met
2. Government to introduce a 5-year public sector investment program (PSIP), beginning with FY2013/14, to be updated on an annual basis.	April 30, 2013	Met
3.a. Government to present to Fund staff a conceptual proposal for the design of a fiscal rule.	August 31, 2013	Met
3.b. 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	
4. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform.	March 31, 2014	
5. Cabinet to approve a detailed budget calendar consistent with top-down expenditure ceilings, for the 2014/15 budget	November 30, 2013	Met
6. Government to ensure there is: (i) no financing of Clarendon Alimina 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	
7. Government to table in parliament a budget for 2014/15 consistent with the program	April 30, 2014	Proposed new structural benchmark
8. Government to table in parliament a comprehensive Public Sector Investment Program (MEFP paragraph 17)	April 30, 2014	Proposed new structural benchmark
Tax Reform		
9. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as described in paragraph 34 of the April 17, 2013 MEFP.	Continuous	Met
10. Parliament to adopt amendments to the relevant tax acts to harmonize the tax treatment for charities across tax types and remove ministerial discretion to grant waivers for charities and charitable purposes as described in paragraph 34 of the April 17, 2013 MEFP.	May 31, 2013	Met
11.a. Government to table a Charities Bill in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff.	September 30, 2013	Met
11.b. Government to cease the granting of waivers to charities other than under the Charities Bill.	November 30, 2013	
12.a. Government to table Omnibus Tax Incentive Act in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff, to eliminate ministerial discretionary powers to grant or validate any tax relief, and put in place a transparent regime for limited tax incentives.	September 30, 2013	Met with delay
12.b. Government to cease the granting of tax incentives under the regime prior to the Fiscal Incentives Legislation.	December 31, 2013	
13. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (MEFP paragraphs 6, 7, 8, and 9).	March 31, 2014	
14. Government to conduct an entity by entity review of all grandfathered entities and of their specific tax incentives in the context of the new tax incentives legislation by end-2014/15	January 31, 2015	Proposed new structural benchmark
Tax Administration		
15. Parliament to adopt amendments to the Revenue Administration Act to (i) provide access to third-party information, to enhance compliance management, and (ii) empower the TAJ to require mandatory e-filing for groups of taxpayers and/or types of taxes.	June 30, 2013	Met
16. Government to increase the professional staff of Large Taxpayer Office (LTO) to 120 staff members.	June 30, 2013	Met
17. Government to make e-filing mandatory for LTO clients with respect to General Consumption Tax (GCT) and Corporate Income Tax (CIT)	March 31, 2014	Proposed new structural benchmark
Financial sector		
18. Government to Establish and Operate a Central Collateral Registry.	December 31, 2013	
19. Government to implement a legal and regulatory framework conducive to Collective Investment Schemes (Paragraph 45 of the MEFP of April 17, 2013) in consultation with Fund staff.	December 31, 2013	
20. Government to implement legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	
21. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (MEFP Paragraph 22) in consultation with Fund staff.	March 31, 2014	
22. Enact Omnibus Banking Law consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	

Attachment 2. Jamaica—Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) sets out the understandings between the Jamaican authorities and the IMF regarding the definitions of quantitative performance criteria, and indicative targets for the programme supported by the arrangement under the EFF. It also describes the methods to be used in assessing the programme performance and the information requirements to ensure adequate monitoring of the targets. In addition, the TMU specifies the requirements under the prior action and the continuous structural benchmark concerning discretionary tax waivers.

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 programme exchange rates are those that prevailed on January 31, 2013. Accordingly, the exchange rates for the purposes of the programme of the Jamaican dollar (J$) to the U.S. dollar is set at J$94.14 = US$1, to the Special Drawing Right (SDR) at J$144.92=SDR 1, to the euro at J$126.72 = €1, to the Canadian dollar at J$93.73 = CND$1, and to the British pound at J$149.22 =£1.

VI. QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

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

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

Cumulative Floor of the Central Government Primary Balance

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

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

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

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

A. Cumulative Floor on Overall Balance of the Public Sector

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

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

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

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

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

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

Adjuster: The floor for the overall public sector balance will be adjusted downward (upward) by an amount equivalent to the shortfall (excess) of PetroJam's overall balance (relative to baseline projections in Table 1), with the cumulative value of the adjustments over four consecutive quarters capped at J$3.5 billion. The adjuster will be eligible for use beginning December 2013.

Table 1. Overall Balance of Petrojam (Baseline Projection)

	In billions of Jamaican dollars
End-December 2013	-3.0
End-March 2014	3.3
End-June 2014	…
End-September 2014	…

B. Ceiling on the Stock of Central Government Direct Debt

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

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

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

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

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

C. Ceiling on Net Increase in Central Government Guaranteed Debt

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

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

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

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

D. Ceiling on Central Government Accumulation of Domestic Arrears

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

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

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

E. Performance Criterion on Non-Accumulation of External Debt Payments Arrears

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

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

Definitions: The term "debt" [2] will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

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

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

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

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

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

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

framework has been agreed or rescheduling agreement is being sought are excluded from this definition.

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

The stock of external arrears of the consolidated government and the BOJ will be calculated based on the schedule of external payments obligations reported by the 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.

This performance criterion does not cover arrears on trade credits.

The performance criterion will apply on a continuous basis.

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

F. Ceiling on Central Government Accumulation of Tax Refund Arrears

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

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

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

G. Floor on Accumulation of BOJ Net International Reserves

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

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

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

Adjusters: NIR targets will be adjusted upward (downward) by the surplus (shortfall) in programme loan disbursements from multilateral institutions (the IBRD, IDB, and CDB) relative to the baseline projection reported in Table 2. Programme loan disbursements are defined as external loan disbursements from official creditors that are usable for the financing of the consolidated government. NIR targets will also be adjusted upward (downward) by the surplus (shortfall) in disbursements of budget support grants relative to the baseline projection reported in Table 2.

Table 2. External Program Disbursements (baseline projection)

Cumulative flows from the beginning of the fiscal year	(In millions of US$)
External loans from multilateral sources	
End-June 2013	11
End-September 2013	30
End-December 2013	255
End-March 2014	426
End-June 2014	10
End-September 2014	46
Budget support grants	
End-June 2013	0
End-September 2013	9
End-December 2013	26
End-March 2014	67
End-June 2014	3
End-September 2014	14

The NIR target will be adjusted upwards (downwards) by the amount by which, at a test date, the cumulative changes from end-December 2012 in BOJ's foreign exchange liabilities to residents 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 3.

Table 3. Reserve Liabilities Items for NIR Target Purposes

	(In millions of US$) 1/
1. BOJ's foreign liabilities to residents	
Outstanding stock	
End-December 2012	277.1
Cumulative change from end-December 2012	
End-March 2013	-30.4
End-June 2013	4.6
End-September 2013	16.8
End-December 2013	53.0
End-March 2014	36.6
End-June 2014	43.3
End-September 2014	50.0

1/ Converted at the programme exchange rates.

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

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

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

VII. QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

A. Cumulative Floor on Central Government Tax Revenues

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

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

B. Floor on Central Government Social Spending

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

In particular, this target comprises spending on specific capital and recurrent programmes. On capital expenditure 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.*

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.

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

VIII. CONDITIONALITY ON TAX WAIVER REFORM

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

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

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

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

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

Contractor/Consultant	government/Construction Project
COMPLANT International Sugar Industry Co. Ltd.	Agreement for Sale and Purchase between SCJ Holdings Limited, Sugar Company of Jamaica Limited, The Minister of Housing, Commissioner of lands, National Sugar Company Limited, Sugar Industry Authority, Sugar Shipping Limited and COMPLANT
Stanley Consultants Inc.	Southern Coastal Highway Improvement Project Feasibility Study and Preliminary Design. Segment 1: Port Antonio to Harbour View Segment 2: Mandeville to Negril.
Kier Construction Limited	IDB Loan No. 2026/OC-JA Dry River Bridge, Harbour View, St. Andrew
Surrey Paving and Aggregate Company Limited	CDB Loan No. 16/SFR-OR-JAM Construction Contract No. WBIP/CDB/05/01—Fifth Road (Washington Boulevard Improvement) Project Vol. 1 – Contract Document
Surrey Paving and Aggregate Company Limited	CDB Loan No. 16/SFR-OR-JAM Construction Contract No. WBIP/CDB/05/01—Fifth Road (Washington Boulevard Improvement) Project Vol. 11 – Works Requirements
China Harbour Engineering Co. Ltd.	Jamaica Development Infrastructure Programme (JDIP) Island wide

Contractor/Consultant	government/Construction Project
China Harbour Engineering Co. Ltd.	Palisadoes Shoreline Protection and Rehabilitation Works
Golden Grove Sugar Company	Agreement for sale and Purchase (Duckenfield Estate, St. Thomas) SCJ Holdings Limited, National Sugar Company Limited, St. Thomas Sugar Company Limited
Vinci Construction Grands Project	Kingston Water & Sanitation Project–Rehabilitation of Mona & Hope Water Treatment Plants KSA/WI
Kier Construction Limited	Kingston Water Sanitation Project – Construction of New Waste Water Pump Station at Darling Street KSA/W2
M&M Jamaica Limited	Rehabilitation of the Negril Waste Water Treatment Plant
China Harbour Engineering Company	Jamaica North South Highway Project
Bouygues, Trans-Jamaican Highway, Jamaica Infrastructure Operators	Highway 2000
COMPLANT	Jamaica Economical Housing Project

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

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

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

A. Information Requirements

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.[3] 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 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.

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

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

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

- The balance sheet of the PetroCaribe Development Fund with a lag of no more than six weeks after the closing of each month.

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

- Data on tax waivers for charities and charitable giving.

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.