REPORT TO CONGRESS ON
THE INTERNATIONAL MONETARY FUND'S
LOAN TO JAMAICA

A Report to Congress

consistent with

Section 1501 of the
Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010

United States Department of the Treasury
May 2013

Introduction and Overview

This report has been prepared consistent with section 1501 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010*.[1] As required, the report provides an assessment of the likelihood that the recently-approved International Monetary Fund (IMF or Fund) loan made to Jamaica will be repaid in full, including Jamaica's debt status, vulnerabilities, and debt management strategy.

As directed by section 1501, and consistent with its longstanding practice with respect to all loans, the Office of the United States Executive Director (USED) at the IMF, in close coordination with the Treasury Department, conducted a careful and thorough evaluation of the proposal for the Jamaican program submitted to the IMF Executive Board given that Jamaica's debt-to-GDP ratio exceeded 100 percent[2] and Jamaica is not eligible for assistance from the International Development Association.

The USED at the IMF, in close coordination with the Treasury Department, evaluates all proposals for country loans submitted to the IMF Executive Board. This includes a careful examination of a country's macroeconomic situation, debt sustainability, and the quality of the proposed policy adjustment measures to ensure a return to stability. In cases when exceptional access is requested, the USED also takes into account IMF documentation assessing potential financial risks to the Fund, which is prepared for each new program proposal. The top priority of any such evaluation is to verify that IMF resources are adequately safeguarded and that repayment risks are mitigated. USED and Treasury staff meet with IMF staff to discuss the key elements of such proposals in order to inform a judgment on the program on the likelihood of repayment. If repayment is in serious doubt, the USED would not support the proposal.

On May 1, 2013, the IMF Executive Board approved a four-year Extended Fund Facility (EFF) in the amount of $926 million for Jamaica. The main pillars of the program are: (i) structural reforms to boost growth; (ii) actions to improve price and non-price competitiveness; (iii) upfront fiscal adjustment, supported by extensive fiscal reforms; (iv) debt management operations that place public debt on a sustainable path, while protecting financial system stability; and, (v) improved social protection programs to help the most vulnerable. To support restoration of debt sustainability, the authorities implemented a debt exchange in early-2013 which will contribute 8.6 percentage points of reduction in the public debt ratio by 2020. IMF disbursements will be contingent on the Jamaican government's successful implementation of agreed policy measures. **Based on aggressive fiscal consolidation measures already proactively undertaken by the government, the linkage of additional IMF disbursements to meeting policy commitments, and the IMF's preferred creditor status, the Treasury Department and the USED assess that, while this loan poses somewhat greater repayment risks to the Fund than those normally associated with a Fund program, the prospects for**

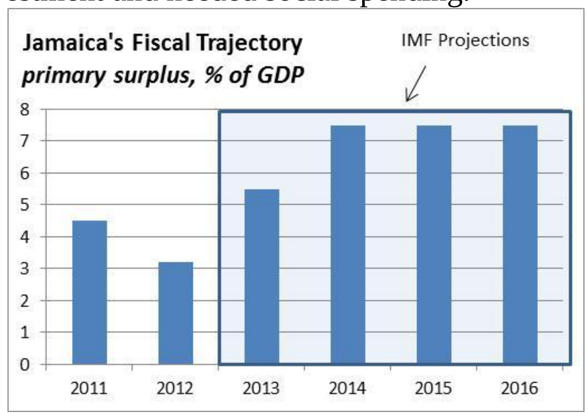
[1] P.L. 111-203; codified at 22 U.S.C. 286tt(b) , section 68(b) of the Bretton Woods Agreements Act: "Within 30 days after the Board of Executive Directors of the Fund approves a proposal [to make a loan to a country whose public debt exceeds gross domestic product and is not eligible for assistance from the International Development Association] the Secretary of the Treasury shall report in writing . . . assessing the likelihood that loans made pursuant to such proposals will be repaid in full . . . ."

[2] As of December 2012 (the latest date for which data is available), the Jamaican government's debt was 147 percent of 2012 GDP.

repayment are still strong and the loan is likely to be repaid in full. As such, the Treasury Department instructed the USED to vote in favor of the program.

Background

Jamaica is a small, tourism-driven island economy sensitive to the U.S. business cycle and Caribbean weather patterns. It has faced persistent low growth and high debt, with the high cost of debt servicing hindering growth-enhancing investment and needed social spending.



Jamaica's performance under its last Stand-By Arrangement, approved in early 2010, was initially positive, but deteriorated in late-2010 and the third review in January 2011 was the last to be completed due to significant fiscal slippages. The new government, that took office in January 2012 with a large majority in parliament, introduced a budget for fiscal year 2012/13 that aimed at raising the central government's primary surplus to 6 percent of GDP, from 3.2 percent in the previous year, and enacted a tax package which aims to raise 1.6 percent of GDP in revenues on a full year basis. However, these efforts, while necessary, on their own would not return Jamaica to a sustainable debt path given the large debt overhang. Accordingly, the authorities implemented a debt exchange in early-2013 which will contribute 8.6 percentage points of reduction in the public debt ratio by 2020.

Program Description

The main pillars of the program are: (i) structural reforms to boost growth; (ii) actions to improve price and non-price competitiveness; (iii) upfront fiscal adjustment, supported by extensive fiscal reforms; (iv) debt management operations that place public debt on a sustainable path, while protecting financial system stability; and, (v) improved social protection programs to help the most vulnerable. IMF financing would partially fill Jamaica's anticipated external financing gaps - $346 million in FY2014 and $259 million in FY 2015 – with additional multilateral financing (the World Bank and the Inter-American Development Bank have provided financing assurances of $1 billion over the course of the program, with $364 million in the first year, provided that Jamaica establishes a track record of strong program implementation). IMF financing would also increase the Financial Sector Support Fund, which was established to provide liquidity support to and possible recapitalization of financial institutions that participated in the debt exchange.

Strong fiscal adjustment is at the heart of the program. The public sector balance is targeted to improve by almost 4.8 percent of GDP in 2013/14, following a projected 1.2 percent of GDP improvement in 2012/13. The program targets an annual central government primary surplus of 7.5 percent of GDP throughout the program period. The program also contains significant measures to boost Jamaica's competitiveness and enhance growth potential. The authorities have committed to reforms that will: (1) improve the business climate; (2) enhance labor market flexibility and address the mismatch between training and employment opportunities; (3) improve efficiency in public sector operations; and, (4) reduce over time the cost of energy.

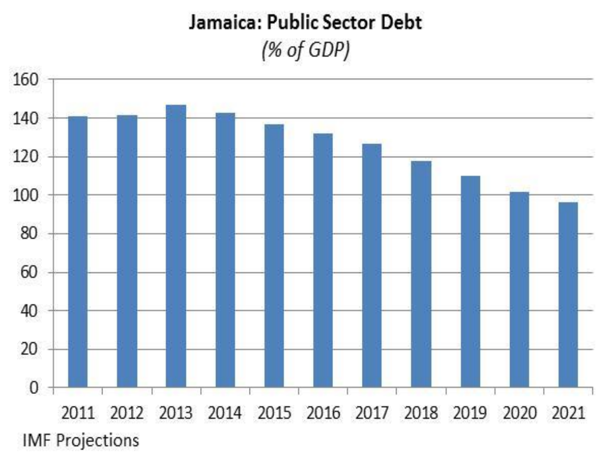
Debt Status

As of December 2012 (the latest date for which data is available), the Jamaican government's debt was $19.8 billion, equivalent to 147 percent of 2012 GDP. The private debt restructuring, completed in February 2013, will improve debt dynamics. In addition, as growth-enhancing reforms take hold, Jamaica's debt position should continue to improve as revenues are bolstered and GDP growth directly contributes to a lower debt to GDP ratio.

Jamaica's Public Sector Debt
US $ billions

Domestic	10.7
External	6.0
Guarantees	1.8
Petrocaribe	1.3
Total	19.8

In February 2013, the Jamaican government completed a debt restructuring to reduce the level of indebtedness to a sustainable level over the medium-term. The debt exchange was designed to maximize the savings for the government, expressed in terms of reduction in debt-to-GDP by 2020, subject to an acceptable level of financial sector risk. The bonds targeted by the exchange included local currency and U.S. dollar-denominated bonds amounting to approximately $9.5 billion, or 64 percent of GDP. The exchange significantly lengthened the maturity and reduced the interest payments on the government's domestic debt. The participation rate was high at 99 percent of targeted debt, and the exchange is projected to result in savings estimated at about 8.6 percent of 2020 GDP.



Debt Management Strategy

The government's primary objective is to place Jamaica's public debt on a downward trajectory, aimed at achieving a 96 percent debt-to-GDP ratio by 2020. In order to meet this objective, the government is committed to running primary surpluses that reduce the need for additional debt and allow for a reduction in outstanding debt. It has also identified options for debt swaps and guarantees aimed to contribute two percent of GDP in debt reduction by 2020.

Contributions to the Decline in Public Debt	
Public Debt in 2012/13	147.0
Fiscal consolidation and growth	-36.4
Domestic debt exchange	-8.6
Debt swaps and guarantees	-2.0
Other measures	-4.0
Public debt in 2020	96.0

Source: IMF

Vulnerabilities

Jamaica's primary external vulnerabilities are its exposure to the U.S. and UK economies, natural disasters, and oil price shocks. Jamaica's tourism sector is dependent on an economic recovery in the United States, Canada, and the United Kingdom. Jamaica is also highly vulnerable to commodity price shocks and weather-related natural disasters. Savings gained from planned fiscal consolidation and debt restructuring under the IMF program should help to provide a cushion for the government to guard against and mitigate these vulnerabilities.

Jamaica's primary internal vulnerability is the large exposure of its banking sector to government debt. Banks' holdings of government securities were close to 20 percent of their assets – or 12 percent of GDP. The securities dealers sector's assets are 64 percent of their total assets or 22 percent of GDP. The Financial Sector Support Fund, established with financing from the IMF as part of the previous program and bolstered under this program, will provide a liquidity backstop to financial institutions (banks, securities dealers, insurance companies) if required to help address vulnerabilities arising in the financial sector due to the debt exchange.

Overall Assessment

Jamaica is heavily indebted and vulnerable. However, its IMF-supported program, combined with the debt restructuring, provides the best opportunity for the country to return to a sustainable debt path and mitigate its vulnerabilities. IMF resources will be safeguarded by the following:

- Completion of measures prior to program approval to enhance the starting point of the IMF program. For example, the government has reached agreement with public sector unions representing more than 81 percent of workers to limit wage increases and secured cabinet acceptance of the elimination of discretionary tax waivers.

- Completion of a debt restructuring process in an open and transparent manner, with constructive Jamaican government engagement with creditors.

- IMF financial support and policy guidance, which will help to fill Jamaica's financing gap, and mitigate vulnerabilities by backstopping the banking sector during the debt restructuring, and ensuring sound policies.

- Strong IMF program conditionality and rigorous reviews. Program conditionality agreed to by the government focuses on the following areas: maintaining government fiscal surpluses at a level consistent with achieving debt reduction over the medium-term; strengthening public financial management; and, enhancing competitiveness.

- The IMF's preferred creditor status, ensuring that it is repaid ahead of all other creditors.

With these factors in mind, the Treasury Department assesses that the IMF's loan to Jamaica is likely to be repaid in full.