

**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

Introduction

This report provides an annual update assessing the likelihood that International Monetary Fund (IMF) loans, made to countries whose public debt exceeds their gross domestic products (GDP) and who are not eligible for assistance from the International Development Association, will be repaid in full. This report is required by section 1501 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010*.¹ Currently, one country—Jamaica—met the conditions of section 1501 and is covered in this report.

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 proposed program for Jamaica when it was submitted to the IMF Executive Board. The USED and Treasury continue to monitor the progress under the program.

Jamaica

On May 1, 2013, the IMF Executive Board approved a four-year Extended Fund Facility (EFF) in the amount of SDR 615.38 million (about US\$932 million at the time of approval) 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.

The IMF Board approved the combined eleventh and twelfth reviews of the IMF program on June 17, 2016, with a disbursement of approximately \$80 million, bringing total funding disbursed under the program to roughly \$745 million. Jamaica has consistently maintained a large primary fiscal surplus of at least 7 percent of GDP over the lifetime of the EFF to date, demonstrating commendable fiscal discipline by the government, compatible with public debt reduction. Jamaica achieved all performance criteria for end-December 2015 and end-March 2016. National elections were held in February 2016 and brought a new government into power, which has a different set of priorities from the previous government that negotiated the EFF. Nonetheless, the new government remains committed to the EFF's objectives and worked closely with the IMF to ensure that the most recent program reviews were successful.

Prior to the program, in 2012, Jamaica experienced a widening of its current account deficit to nearly 15 percent of GDP and a significant loss of foreign exchange reserves, due in part to an inflexible exchange rate regime and unsustainable fiscal expansion. Since the IMF Board approved the program in mid-2013, the exchange rate has substantially adjusted toward its

¹P.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] and annually thereafter by June 30, for the duration of any program approved under such proposals, the Secretary of the Treasury shall report in writing . . . assessing the likelihood that loans made pursuant to such proposals will be repaid in full”

equilibrium level under a more flexible regime, the fiscal situation has stabilized, and Jamaica has begun to rebuild reserve buffers. Economic performance for Jamaica's fiscal year 2015/2016 (ended March 2016) was broadly in line with the program framework, though real GDP growth in 2015 was sluggish at 0.8 percent, in line with the average growth rate since 1990. Inflation fell to 2.4 percent year-over-year in April 2016, from a recent high of 9.8 percent in August 2014, primarily due to lower oil prices and domestic demand weakness. Lower oil prices also helped narrow the current account deficit to 2.4 percent of GDP for fiscal year 2015 (projected to stay broadly unchanged at 2.6 percent of GDP in fiscal year 2016), from 8.0 percent of GDP in fiscal year 2014.

During its fiscal year 2015/2016, Jamaica made progress on its structural reform agenda in the areas of tax and customs administration, public financial management, and the financial sector, while also strengthening its exchange rate management. Jamaica hired more public auditors in its customs agency to improve duty revenue collection, implemented phase two of an integrated tax software package, and introduced new tax reform legislation. On the monetary side, Jamaica continues transitioning to full exchange rate flexibility, and IMF models suggest that the exchange rate is broadly in line with fundamentals. Jamaican authorities signaled their commitment to the IMF program and promoted financial market deepening and stability by raising the percentage cap on foreign assets held by Jamaican trusts and mutual funds to 25 percent, issuing regulations implementing the Banking Services Act (adopted in June 2014), and giving the central bank overall responsibility for financial stability. These reforms and others have led to strengthened market confidence including two credit rating upgrades in the past year and a downward trend in government bond yields since January 2016.

Debt Status

Jamaica has reduced its public debt-to-GDP ratio by 18 percentage points over the first three-years of the program, faster than the IMF had originally anticipated, due to fiscal consolidation and the July 2015 buyback of debt owed to the Government of Venezuela under the PetroCaribe Energy Cooperation Agreement. Debt-to-GDP stood at 129 percent at end-March 2016, having fallen from 137 percent in March 2015 and 147 percent in 2013. The faster than anticipated decline in Jamaica's public debt-to-GDP ratio led the IMF to slightly lower its primary fiscal surplus target for fiscal year 2016/2017 from 7.5 to 7.0 percent of GDP to accommodate a modest increase in growth-enhancing spending. As structural reforms take hold, improvement in public revenue and GDP growth should help further reduce the debt burden. Jamaica's fiscal rule places a floor on the overall fiscal balance with the goal of reducing debt-to-GDP to 96 percent by end-March 2020 and 60 percent by 2026.

Debt Management Strategy

The government's primary objective is to place Jamaica's public debt on a downward trajectory. In order to meet this objective, the government is committed to running large primary surpluses that reduce the need for additional debt and allow for a reduction in the level of outstanding debt-to-GDP. Jamaica is on track to meet this objective, with a primary fiscal surplus of 7 percent of GDP targeted through at least FY 2021-22. The government has implemented a number of structural reforms that contain wasteful spending and a tax reform that includes broadening the tax base and reducing exemptions, all of which will help Jamaica meet its targeted fiscal surplus. The IMF baseline analysis projects a continued decline in public debt-to-GDP.

Vulnerabilities

Primary vulnerabilities to Jamaica's economic objectives, including debt sustainability, are natural disasters, a major increase in global oil prices, serious delays in implementation of key reforms, or persistent slow growth and foreign investment. Droughts, hurricanes, or disease outbreaks could lead to damage of critical infrastructure, decreased productivity, or lower tourism receipts. If the authorities are unable to effectively address high crime rates, expand private sector access to finance, and reduce tax compliance costs, these factors could impede private sector activity, keeping growth rates sluggish. Persistent below-potential growth rates, in turn, could lead to decreased public support for reforms, threatening the fiscal consolidation that has put Jamaica's debt-to-GDP on a downward trajectory.

The Jamaican government's exposure to exchange rate risk has also risen due to its growing reliance on external financing. Foreign currency debt now accounts for about 63 percent of total debt. The prospect of higher U.S. interest rates and the appreciation of the U.S. dollar would increase Jamaica's external debt burden and increase upward pressure on domestic interest rates. The government's successful reopening of domestic debt markets in February 2016, however, may help to rebalance the composition of external versus domestic debt and ameliorate this risk over time.

Overall Assessment

Jamaica remains heavily indebted and vulnerable. However, its IMF-supported program has been highly successful to date in helping to address these issues and continues to provide the best opportunity for the country to return to a sustainable debt path and mitigate its vulnerabilities. The Jamaican government has demonstrated its commitment to meeting IMF program objectives, and performance under the program has been very strong. Jamaica has met almost all performance targets, and the IMF Board has approved all reviews and disbursements. Based on these factors and the IMF's preferred creditor status, the Treasury Department assesses that the IMF's loan to Jamaica is likely to be repaid in full.

