

**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
July 21, 2017

Introduction

This report provides an assessment of the likelihood that the International Monetary Fund (IMF) loan to Jamaica, approved in November 2016, 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 Jamaica's public debt is equivalent to almost 124 percent of its GDP, and the country is not eligible for assistance from the International Development Association. Its performance under successive IMF programs has been remarkable so far.

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.

Overview

On November 11, 2016, the IMF Executive Board approved a three-year Stand-By Arrangement (SBA) in the amount of SDR 1.195 billion (about US\$1.6 billion at the time of approval) for Jamaica. The Jamaican authorities are treating the SBA as precautionary; they have not drawn, and do not intend to draw, financing from the IMF unless external shocks—e.g., a sharp increase in oil prices, global market volatility, or natural disasters—generate an actual balance of payments need. This SBA replaces the country's Extended Fund Facility (EFF), approved in May 2013 for the amount of SDR 615.38 million (about US\$932 million at the time of approval). The main pillars of the SBA build on the economic progress achieved under the EFF, and include: (i) reorienting fiscal policy to better support growth and reduce poverty; (ii) reducing public debt to 60 percent of GDP by FY 2025/26 (the year ending March 2026) by maintaining a primary surplus of 7 percent of GDP for the duration of the program; (iii) building the foundation for monetary policy to move to inflation targeting; and (iv) further building financial sector resilience and inclusion.

Jamaica established an exemplary track record of program ownership and implementation under the EFF, completing 13 program reviews and fulfilling nearly all performance criteria. The country maintained a primary fiscal surplus of at least 7 percent of GDP over the lifetime of the EFF so as to markedly improve debt sustainability and be in a position to reduce debt-to-GDP down to 60 percent by FY 2025/26. Jamaica also made important progress under the EFF to restore macroeconomic stability: the exchange rate has substantially adjusted toward its equilibrium level under a more flexible regime, the fiscal situation has stabilized, and Jamaica has begun to rebuild foreign exchange reserve buffers. Inflation fell to 1.9 percent year-over-year in September 2016, from a recent high of 9.8 percent in August 2014, driven in part by

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. . . ."

lower oil prices. Lower oil prices, along with strong tourism and remittances, also helped narrow the current account deficit to 1.8 percent of GDP for FY 2015/16, from 8.7 percent of GDP in FY 2013/14.

Under the SBA, Jamaica has continued this positive trajectory. On April 18, Jamaica successfully concluded its first review on schedule. Treasury agrees with the IMF staff view that program implementation, at that time, was strong, with sustained positive GDP growth, and that macroeconomic discipline and visible reforms had increased stability and confidence. Investor confidence is at an all-time high, leading to growth in foreign direct investment. IMF staff recently returned from a follow-up mission in June 2017 and reported continued strong performance.

Debt Status

Jamaica has reduced its public debt-to-GDP ratio by more than 25 percentage points since the start of its prior EFF in 2013, 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 123.9 percent at end-March 2017, having fallen from 138 percent in FY 2014/15 and 147 percent in FY 2012/13. The FY 2016/17 debt-to-GDP ratio represents a slight increase from the FY 2015/16 ratio of 120 percent, reflecting early rollovers of some debt that is maturing in FY 2017/18, and was anticipated by the IMF at the program's start; it will not affect the overall trajectory of debt reduction. As structural reforms take hold, improvements 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 under 100 percent by end-March 2020 and 60 percent by 2026.

Debt Management Strategy

The government's primary objective is to keep Jamaica's public debt on a downward trajectory. 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 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 control wasteful spending and a tax reform that includes broadening the tax base and reducing exemptions, all of which are intended to help Jamaica meet its targeted fiscal surplus. The tax reform will also generate revenues to expand Jamaica's social safety net to better protect the vulnerable. The IMF projects continued decline in public debt-to-GDP after FY 2016/17.

Vulnerabilities

Jamaica's key vulnerability is that growth and job creation dividends from the reforms have been slow to materialize. Persistent below-potential growth rates could lead to decreased public support for reforms (although official commitment to the program has remained strong to date), threatening the fiscal consolidation that has put Jamaica's debt-to-GDP on a downward trajectory. Further, 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. The country is also vulnerable to external shocks such as natural disasters, a sharp rise in risk premia due to volatility in international markets, and economic slowdown in trade partners.

The Jamaican government's exposure to exchange rate risk has also risen due to its reliance on external financing. Public debt in foreign currency now accounts for about 61 percent of total public 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, the IMF-supported EFF was highly successful in helping to address these issues, and the current precautionary SBA provides a solid framework for the country to return to a sustainable debt path and mitigate its vulnerabilities. The Jamaican authorities continue to demonstrate their extraordinary commitment to meeting IMF program objectives, and they are on track to maintain a strong level of performance and country ownership. 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.