

**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

August 3, 2018

Introduction

This report provides an assessment of the likelihood that the International Monetary Fund (IMF) loan to Jamaica 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 112 percent of its GDP, down from 145 percent of GDP at the time of initial program approval in May 2013, and the country is not eligible for assistance from the International Development Association. Its performance under successive IMF programs has been remarkably strong 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 (OUSED) 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 OUSED 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 continue to view 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 replaced 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 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) augmenting financial sector resilience and inclusion.

Jamaica has by now established an exemplary multi-year track record of program ownership and implementation, under both of Jamaica's leading political parties. Looking back to Jamaica's previous EFF, the authorities completed 13 program reviews, including maintaining 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 substantially adjusted toward its equilibrium level under a more flexible regime, inflation fell, and the central bank began to rebuild foreign exchange reserve buffers.

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. . . ."

Under the current SBA, Jamaica has continued this positive trajectory. On April 10, 2018, Jamaica successfully concluded its third review on schedule. Treasury shares the IMF staff view that program implementation remains robust five years into economic reforms, with all quantitative criteria and structural benchmarks met for end-December 2017. Importantly, program performance remained strong even following a change in government in early 2016, signaling a strong political consensus for reforms embodied in the IMF SBA. Fiscal consolidation has underpinned an increasingly stable macroeconomic picture. The latest IMF program review projects the public debt-to-GDP ratio will fall below 100 percent by end-March 2020 from a peak of 145 percent in May 2013. Inflation is within the Bank of Jamaica (BOJ) target range of 4-6 percent, while international reserves continue to grow. The fourth review is scheduled to occur in the fall of 2018.

Debt Status

Jamaica has reduced its public debt-to-GDP ratio by almost 35 percentage points since the start of its prior EFF in 2013, faster than the IMF 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 113.9 percent at end-March 2018, a reduction of 10.2 percentage points from FY 2016/2017. As implementation of structural reforms continues, improvements in public revenue and stronger GDP growth should help further reduce the debt burden. Jamaica's Fiscal Responsibility Law, which places a floor on the overall fiscal balance, is projected to push the debt-to GDP ratio below 100 percent by end-March 2020 and to 60 percent² by 2026.

Debt Management Strategy

The government's primary objective is to keep Jamaica's public debt on a downward trajectory to make space for essential public services and maintain access to debt markets. In order to meet this objective, the government remains committed to running primary surpluses that allow for a reduction in the level of outstanding debt-to-GDP. Jamaica remains on track to meet this objective with a primary fiscal surplus of 7 percent of GDP targeted through at least FY 2019/20. Debt service costs declined to 7.3 percent of GDP. The government has also implemented a number of structural reforms, including increasing expenditure efficiency and a base-broadening tax reform, to achieve the targeted fiscal surplus. The government has pledged to reduce the public sector wage bill by rethinking the compensation structure and composition of the workforce over a 4-year wage settlement period, an agreement negotiated with public sector unions. Planned investments in farming infrastructure such as rural roads and irrigation should boost Jamaica's key agriculture sector while building resilience against frequent tropical storms. The IMF projects continued decline in public debt-to-GDP after FY 2017/2018.

Vulnerabilities

The key risk to Jamaica's strategy to accomplish debt reduction in order to free up fiscal space for productive investments is that growth and job creation dividends from the reforms have been

² This figure is calculated according to the debt methodology of Jamaica's Fiscal Responsibility Law, which differs from the IMF program's methodology primarily by excluding debt to the IMF held by the BOJ.

slow to materialize. Persistent below-potential growth rates, averaging only 0.9 percent since reforms began in 2013, could lead to decreased public support (although official commitment to the program has remained strong to date). 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.

At the macro level, the country is exposed to external shocks such as a sharp rise in risk premia due to volatility in international markets, and economic slowdown in trade partners. A key vulnerability is the rise in international oil prices, which will create a higher current account deficit and create depreciation pressures on the currency. Finally, Jamaica remains highly exposed to the risk of significant weather-related natural disasters.

The Jamaican government's exposure to exchange rate risk has risen due to its reliance on external financing, including a \$1 billion USD bond issuance in August 2017. Public debt in foreign currency now accounts for about 64 percent of total public debt. Rising U.S. interest rates and the appreciation of the U.S. dollar could destabilize Jamaica's external debt burden and increase upward pressure on domestic interest rates, although the majority of external debt carries long maturities. The government's successful reopening of domestic debt markets in February 2016 should 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 EFF was highly successful in helping to address these issues, and the current precautionary SBA is providing a solid framework for the country to continue on 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.