The IMF team supports the reduction in the primary surplus target by ½ percent of GDP to 6½ percent to facilitate higher spending in social assistance, citizen security and rural infrastructure in the FY2019/20 Budget.

· The reductions in the highly distortive financial turnover taxes in the FY2019/20 Budget are expected to lower the cost of doing business, reduce informality and increase economic activity.

· Tackling governance issues swiftly and forcefully is necessary to enhance transparency and accountability, bolster trust in public institutions, and protect public funds.

An International Monetary Fund (IMF) staff team led by Ms. Uma Ramakrishnan visited Kingston from February 25–March 8, 2019, to conduct discussions on the fifth review of Jamaica’s financial and economic program supported by the IMF’s precautionary Stand-By Arrangement (SBA).

At the end of the visit, Ms. Ramakrishnan issued the following statement:

"The IMF team reached a preliminary agreement with the Jamaican authorities on a set of policies that aims to complete the fifth review under the SBA. Consideration by the IMF's Executive Board is tentatively scheduled for April 2019. Upon approval, an additional SDR 160.8 million (about US$224 million) will be made available for Jamaica, bringing the total accessible credit to about US$1.4 billion. The Jamaican authorities continue to view the SBA as precautionary.

"Strong implementation of the reform program continues, with the sustained commitment yielding tangible dividends for the people of Jamaica. Unemployment is near all-time lows, business confidence is high, and the economy is estimated to have expanded by 1.8 percent in 2018, buoyed by mining, construction and agriculture. International reserves are estimated to be comfortable under a more flexible exchange rate. All quantitative performance criteria at end-December 2018 were met, and the structural benchmark to table in Parliament amendments to the Bank of Jamaica (BOJ) Act was completed in October 2018. Inflation, however, was 2.4 percent in December 2018, triggering staff consultation under the Monetary Policy Consultation Clause.

"With improving public debt dynamics, staff supports the reduction in the primary surplus target by ½ percent of GDP to 6½ percent in the budget for FY19/20 to further boost growth and job creation. The additional space accommodates much-needed growth-enhancing and social spending for citizen security, PATH, and rural infrastructure. Staff also welcomes the reductions of the distortionary financial turnover taxes (stamp duty, transfer tax, and minimum business tax, as well as a higher GCT threshold) within the budget envelope. These tax cuts are feasible because of the expanded tax base that has been achieved through commendable efforts in both tax policy and revenue administration. Overall, these budget measures are expected to lower the cost of doing business, reduce informality and increase economic activity.

"Looking ahead, accelerating public sector reforms, including a new compensation framework that rewards performance and the rationalization of the numbers of public bodies by prioritizing government functions, will improve public service delivery. This will further reduce the wage bill and release resources for social and growth-enhancing outlays.

"Swiftly and forcefully addressing the shortcomings in the governance of public bodies—including those identified in the Auditor General's report on Petrojam—is critical to enhance transparency and accountability, reduce the scope for corruption, bolster trust in public institutions, and protect public funds.

"The team welcomes the government's proactive steps to strengthen domestic policy institutions in preparation for exit from Fund financial support later this year. The planned fiscal council, policy framework for natural disaster risks financing, macro-fiscal capacity building at the Ministry of Finance and the Public Service, and enshrining central bank operational independence constitute key pillars.

"We also applaud the BOJ's innovative public engagement on the importance of stable and predictable inflation. Further monetary loosening is warranted to restore inflation to the target range of 4–6 percent, including improving monetary transmission, while monitoring developments in oil prices, global financial conditions, and domestic factors. Maintaining a market-determined exchange rate with BOJ's FX sales limited to episodes of disorderly market conditions is necessary for the shift to full-fledged inflation targeting.

"Building on the recent FSAP recommendations, the authorities are working towards strengthening the financial sector's oversight capacity, risk-based and consolidated supervision, implementing measures to further develop the FX and debt markets, and improving access to finance for businesses and households.

"During the visit, the IMF team met with Prime Minister Andrew Holness, Minister of Finance and the Public Service Dr. Nigel Clarke, Minister of Energy, Science and Technology Fayval Williams, Bank of Jamaica Governor Brian Wynter, Financial Secretary Darlene Morrison, Planning Institute Director General Dr. Wayne Henry, senior government officials, as well as members of the private sector, labor unions, and the Opposition.

"We would like to thank the Jamaican authorities for their continued hospitality and candid discussions."

*

**IMF