Box 1: The International Monetary Fund (IMF) & Jamaica's Experience with the IMF

Overview of the IMF[14]

The fundamental mission of the International Monetary Fund (IMF) is to help ensure stability in the international monetary system. It does so by keeping track of the global economy and the economies of member countries and providing financing and policy support to countries experiencing balance of payments (BOP) difficulties with the aim of remedying underlying problems. IMF financing provides a cushion that eases the adjustment policies and reforms that a country must make to correct its BOP problem and restore conditions for economic growth[15]. The loan period can range from as short as three months to as long as 3 years, depending on the loan arrangement (see **Table 1**). The "arrangement" stipulates the specific policies and measures that a country has agreed to implement to resolve its balance of payments problem. These policy measures are known as the "conditionality" and they also serve as a guarantee that the country will repay the IMF.

In response to the "deepening" global economic difficulties, the IMF board approved a major 'overall' to its lending framework by:

(1) Modernizing the IMF conditionality
(2) Introducing a new flexible credit line
(3) Enhancing the flexibility of the Fund's regular stand-by lending arrangement
(4) Doubling access limits
(5) Adapting and simplifying the cost and maturity structures for its lending, and
(6) Eliminating facilities that were seldom used

The IMF is seeking to significantly increase both its concessional and non-concessional lending resources which would enable the institution to meet growing need for financing arising from the crisis.

IMF Conditionality

Up to the early 1980s, conditionality largely focused on macroeconomic policies. However, with the IMF's growing involvement with low-income and transition countries, there has been a broadening and deepening of conditionality. In 2000, an extensive consultative review of conditionality recognized that successful economic policy programs must be founded on strong country ownership. Hence, in recent times, the economic program underlying a lending arrangement is one that is formulated by the country in consultation with the IMF.

The recent changes to the conditionality framework in March 2009 are aptly described in the following text extracted from the Fund's website. The IMF "*modernized its conditionality framework to strengthen its capacity to prevent and resolve crises. The new framework ensures that conditions linked to disbursements of IMF financing are sufficiently focused and adequately tailored to the varying strengths of members' policies and fundamentals. This is to be achieved by making greater use of pre-set qualification criteria (ex-ante conditionality) and making more flexible modalities of traditional (ex-post) conditionality. In addition, structural reforms are now monitored in the context of program reviews, rather than through the use of structural performance criteria, which will be discontinued in all IMF arrangements, including those for low-income countries*".

IMF Resources

The IMF has in place a system of quotas, which is designed to reflect each member's weight or influence in the world economy. This quota determines a country's subscription to the Fund, its drawing rights under both regular and special facilities, voting power and the share of allocation of Special

[14] Information provided in box is sourced from IMF website and BOJ documents.
[15] The IMF in accordance with its mandate also provides countries with technical assistance and training in various areas.

Drawing Rights (SDRs)[16]. The total quota as at 31 July 2009 was SDR 217.4 billion.

Quota subscriptions from member countries are the IMF's main source of financing but the organization can supplement its resources through borrowing if these resources fall short of members' needs. There are a range of options available for temporarily supplementing the Fund's resources, including entering into bilateral loan agreements, issuing notes to the official sector and enlarging existing borrowing arrangements.

The General Arrangements for Borrowing (GAB) and the New Arrangements to Borrow (NAB) are credit arrangements between the IMF and a group of member countries and institutions. The purpose of these arrangements is to provide supplementary resources up to SDR 34 billion (approximately US$50 billion) to the IMF to forestall or cope with an impairment of the international monetary system or to cope with an exceptional threat to the stability of the system.

NEW LENDING TO IMF

COUNTRY	US$ (billion)
Japan	100
European Union	100
Norway	4.5
Canada	10
Switzerland	10
United States	100
Korea	10
Australia	7
Russia	10
China	50
Brazil	10
Total Available	**412**
Total Pledged	**750**
Balance Outstanding	**339**

[16] The SDR is an interest-bearing international reserve asset created by the IMF to supplement the official reserves of member countries

In light of the unprecedented shock confronting the global economy since 2007, there has been a sharp increase in demand for the IMF's resources. In order to ensure that the Fund has sufficient resources to meet this demand, the Group of 20 leading economies, on 2 April 2009, endorsed measures to triple the IMF's regular lending capacity by US$750.0 billion.

Recent Borrowing

Since the escalation of the global crisis, there has been a sharp increase in loans to member countries of the IMF. Between 1 November 2008 and 30 June 2009, 28 countries have accessed Fund facilities to the value of US$35.7 billion[17]. Of this amount the bulk of resources accessed have been under Stand-By Arrangements (see **Table 2**).

Jamaica's experience with the IMF

Jamaica became a member of the IMF on 21 February 1963. In June 1963, the country entered into a one-year Stand-By Arrangement (SBA) with the Fund, which permitted drawings up to a limit of SDR 10 million. However, the Arrangement expired in June 1964, unutilized. It was not until June 1973 that the country returned to borrow from the IMF and continued various arrangements until 1996, when it terminated its borrowing arrangement. Jamaica however, remained a member of the IMF and in 2001, agreed on an Intensified Surveillance Program (ISP) - a Staff Monitored Program - with the Fund[18].

Jamaica's borrowing arrangements with the Fund between 1973 and 1996 were largely aimed at correcting balance of payments problems arising from negative economic and financial trends including commodity price shocks (in particular oil), and high inflation. Whereas loans from the

[17] Computed at 27 July exchange rate of SDR=US$1.559

18 A staff monitored program is an informal and flexible instrument for dialogue between the staff of the IMF and a member country on its economic policies. It is not supported by the use of the Fund's financial resources nor is it subjected to the endorsement of the Executive Board of the IMF.

IMF are not available to the Government for project spending or on-lending, it was anticipated that borrowing from the IMF would create a platform for investment inflows which would lead to economic growth and development (see **Table 3**).

Current Status

The intensification of the global financial crisis since September 2008 has emphasized Jamaica's vulnerability to changes in the external economic environment. The impact of the global crisis has been observed in a number of sectors. The mining sector has been the hardest hit, while tourism and remittances flows have been on the decline. Concurrently, there has been fallout in capital inflows. Against this background, the gross foreign reserves could decline well below the internationally accepted benchmark of 12 weeks of goods and services imports, unless other resources are forthcoming. A sharp decline in reserves will erode investor confidence and destabilize the foreign exchange market.

Given weakness in the global economy and a decline in international commodity prices, Jamaica's GDP is projected to contract by 3-4 per cent in 2009. The decline in economic output, including mining activity, is having a negative impact on Government revenues. With revenues declining and interest payments accounting on average, for well over 40 per cent of total receipts, the Government is facing significant financing gaps.

In a context where the global economy is unlikely to recover before FY 2010/11, the Jamaican economy is unlikely to record strong growth over the next 2-3 years especially if the bauxite/alumina companies remain closed until 2011 and flows from remittances and tourism continue to be weak. Further, the reduction in earnings is likely to be exacerbated by proposed changes to the Petrocaribe agreement.

The international capital markets are virtually closed to emerging market debt and in order to meet its external debt obligations without depleting the NIR and eroding investor confidence, the Government has opted to negotiate a borrowing arrangement with the IMF in 2009. An agreement with the Fund will enable the Government to close the financing gaps through its catalytic influence on other multilateral loan inflows. Additionally, these flows would also underwrite stability in financial markets; facilitate continued easing of monetary policy and provide a platform for economic growth and development. An IMF agreement is also one of the pre-conditions for borrowing from the other multilateral agencies including the IDB and World Bank.

Passive balance of payments projections point to a financing gap of US$600 - US$800 million in FY 2009/10. The proposed financing to close the gap will come from two sources, a general allocation of SDR by the IMF and a multi-year Stand-By Arrangement (SBA). Jamaica's allocation currently stands at SDR 273.5 million. An increase in the general allocation of SDRs – that is, the distribution of SDR 250 billion among all member countries - has been approved by the Board of the Fund and is likely to be ratified by the Board of Governors. Jamaica's share of this allocation would boost resources available to the Bank of Jamaica by approximately US$320 million bringing Jamaica's total SDR allocation to over US$600 million.

With the conclusion of a SBA in the December quarter, the Fund is expected to commit the equivalent of 300 per cent of quota (US$ 1200 million) over two years. It is expected that at least US$400 million of the Stand-By Arrangement would be available in FY 2009/10. This pool of convertible resources and the endorsement of the Fund would also smooth the flow of approximately US$500 million to US$600 million from other multilateral sources. Loans from the multilaterals will support a programme of reform in the public sector, the provision of social and economic infrastructure and a range of programmes to enhance human development.

The IMF based on its recent Article IV consultation with Jamaica, has essentially identified three areas that they would like to see strengthened as part of a foundation for medium-term sustainability. These are, inter alia:

(1) Consolidation of public enterprises i.e. a structured approach to minimizing the impact of these enterprises on the accumulation of debt. This would include divestment, mergers and improvements to their governance that would minimize financial losses;

(2) The formulation of a medium term debt strategy to relieve the extraordinarily high debt service burden;

(3) Steps towards limiting the size of future deficits: These will include legislating guidelines for fiscal responsibility, streamlining the civil service and enhancing tax administration.

The key issue is containment the fiscal deficit. However, the inflows associated with IMF support will make such adjustments easier and set the stage for a more sustainable fiscal path into the future. The adoption of these measures to is consistent with commitments given to the multilateral agencies.

Table 1: LOAN ARRANGEMENTS AVAILABLE TO MEMBER COUNTRIES

FACILITY	PURPOSE	PERIOD	INTEREST LEVIED	REPAY. PERIOD
Poverty Reduction & Growth Facility and Exogenous Shocks Facility	For low income countries; ESF provides rapid shock assistance with streamlined conditionality.	5 1/2 years	Concessionary loans with rate of 0.5%	51/2 to 10 years
Stand-By Arrangements	Designed to help with short-term BOP problems. May be provided on a precautionary basis[1]. Front-loaded access available.	12-24 months	Subject to the IMF's market-related interest rate based on SDR rate.	2 1/4 - 5 years
Extended Fund Facility, Established in 1974	Aimed at helping countries with longer-term BOP problems.	3 years	The SDR rate levied, surcharges apply to high levels of access.	3 1/2 - 7 years
Supplemental Reserve Facility	For countries with large short-term financing needs. Based on sudden dusruptions in market confidence.	Very short-term large scale	300-500 basis points above the SDR rate.	0 - 1 1/2 years
Compensatory Financing Facility, Established in 1963 and modified in 1988	Assists countries experiencing sudden shortfall in export earnings or an increase in cost of cereal imports.	Similar to SBA, no surcharge.	Subject to the IMF's market-related interest rate based on SDR rate.	3 1/4 - 5 years
Flexible Credit Line	For countries with strong fundamentals, and track records of policy implementation. Useful for crisis prevention. Available in single upfront distribution or as a precaution.	Typically for 6 months or 1 year [2].	Subject to the IMF's market-related interest rate based on SDR rate.	3 1/4 - 5 years
Emergency Assistance	Provided to countries that have experienced a natural disaster or are emerging from conflict.	3 years	Subject to the SDR rate, subsidies available for PRGF eligible countries.	3 1/4 - 5 years

Notes

1. Countries may chose not to draw on approved amounts immediately

2. With mid-year review

Table 2: RECENT IMF LENDING ARRANGMENTS

General Resources Account (GRA): Stand-By Arrangements - (SBA)					
Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance	IMF Credit Outstanding Under GRA
Armenia, Republic of	March 06, 2009	July 05, 2011	533,600	269,380	264,220
Belarus, Repulic of	January 12, 2009	April 11, 2010	2,269,517	1,751,719	517,798
Costa Rica	April 11, 2009	July 10, 2010	492,300	492,300	0
El Salvador	January 16, 2009	March 31, 2010	513,900	513,900	0
Gabon	May 07, 2007	May 06, 2010	77,150	77,150	0
Georgia	September 15, 2008	March 14, 2010	477,100	189,200	287,900
Guatemala	Aprill 22, 2009	October 21, 2010	630,600	630,600	0
Hungry	November 06, 2008	April 05, 2010	10,537,500	2,950,500	7,587,000
Iceland	November 19, 2008	November 18, 2010	1,400,000	840,000	560,000
Latvia, Republic of	December 23, 2008	March 22, 2011	1,521,626	986,282	535,344
Mongolia	April 01, 2009	October 01, 2010	153,300	76,650	76,650
Pakistan	November 24, 2008	October 23, 2010	5,168,500	2,532,565	2,635,935
Romania	May 04, 2009	May 03, 2011	11,443,000	7,073,000	4,370,000
Serbia, Republic of	January 16, 2009	April 15, 2011	2,619,120	1,917,570	701,550
Seychelles	November 14, 2008	November 13, 2010	17,600	10,560	7,040
Ukraine	November 05, 2008	November 04, 2010	11,000,000	6,125,000	4,893,400
		Total	**48,854,813**	**26,436,376**	**22,436,837**

General Resources Account (GRA): Flexible Credit Line - (FCL)					
Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance	IMF Credit Outstanding Under GRA
Colombia	May 11, 2009	May 10, 2010	6,966,000	6,966,000	0
Mexico	April 17, 2009	April 16, 2010	31,528,000	31,528,000	0
Poland, Republic of	May 06, 2009	May 05, 2010	13,690,000	13,690,000	0
		Total	**52,184,000**	**52,184,000**	**0**

Exogenous Shocks Facility - (ESF)					
Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance	IMF Credit Outstanding Under PRGF-ESF
Kyrgyz Republic	December 10, 2008	June 09, 2010	66,600	33,300	115,600
Malawi	December 03, 2008	December 02, 2009	52,050	17,350	80,948
Mozambique	June 30, 2009	June 29, 2010	113,600	113,600	9,740
Senegal	December 19, 2008	June 18, 2010	121,350	64,720	73,960
Tanzania	May 29, 2009	May 28, 2010	218,790	59,670	170,320
		Total	**572,390**	**288,640**	**450,568**

Poverty Reduction and Growth Facility - (PRGF)					
Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance	IMF Credit Outstanding Under PRGF-ESF
Congo, Rebublic of	December 08, 2008	December 07, 2011	8,460	6,043	25,997
Core d'Ivoire	March 27, 2009	March 26, 2012	373,980	214,632	194,472
Sao Tome & Principe	March 2, 2010	March 1, 2012	2,590	2,220	2,839
Tajikstan, Republic of	April 21, 2009	April 20, 2012	78,300	52,200	26,100
		Total	**463,330**	**275,095**	**249,408**

Table 3: SUMMARY OF JAMAICA'S PERFORMANCE UNDER IMF PROGRAMMES

Date	Type and Duration	Quota SDR (millions)	Agreed Amount SDR (millions)	Date of Expired/ Cancelled	Undrawn Balances	Comments
13/6/1963	1 yr. Stand-by	20	10	12/6/1964	10	Expired: funds were unutilized as financing not necessary.
1/6/1973	1 yr. Stand-by	53.0	26.5	31/5/1974	13.3	Expired: only 50% needed.
11/8/1977	2 yr. Stand-by	53.0	64.0	9/6/1978	44.8	Cancelled: due to deviation of fiscal performance and breach of bank credit ceiling.
9/6/1978	3 yr. EFF	74.0	200.0	10/6/1979	130.0	Cancelled: based on deviation from NIR target of BOJ and breach of criterion to eliminate external arrears by end of 1979.
11/6/1979	2 yr. EFF	74.0	260.0	12/4/1981	175.0	Cancelled: based on deviation from NIR target of BOJ and breach of criterion to eliminate external arrears by end of 1979.
13/4/1981	3 yr. EFF	111.0	477.7	12/4/1984	74.9	Waiver granted: (after end March 1983) following breach of NIR. Cancelled: (after end Sept. 1983) following disagreement between IMF and the Government concerning technical aspects of performance criteria.
22/6/1984	1 yr. Stand-by	145.5	64.0	21/6/1985	-	Waiver granted: (after end Sept. and Dec. 1984) following breaches of programme targets on payment arrears.
17/7/1985	22 mth.	145.5	115.0	16/7/1986	73.4	Cancelled: with breach of NIR targets.
2/3/1987	15 mth.	145.5	85.0	31/5/1988	-	Expired: FY 1987/88 programme successfully completed.
19/9/1988	20 mth. Stand-by	145.5	82.0	30/9/1989	40.9	Waiver granted: (after end March 1989) following breach of targets relating to NIR, external payment arrears, ceiling on short term external public debt, limit on NDA, and financing requirements of public sector. Criteria postponed to June 1989. Cancelled: (after end Sept.1989), accumulation of payment arrears and breach of NIR.
23/3/1990	15 mth. Stand-by	145.5	82.0	31/3/1991	-	Waiver granted:(after end March and June 1991) following breaches of NIR targets. Expired: FY 1990/91 programme successfully completed.
28/06/1991	15 mth. Stand-by	145.0	43.6	30/09/1992	-	Expired: programme revised in April 1992 successfully completed in June 1992.
11/12/1992	3 yr. EFF	200.9	109.1	16/03/1996	22.0	Expired: programme successfully completed.