

UNCLASSIFIED

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

JAMAICA

PROJECT PAPER

JAMAICA PRODUCTION AND EMPLOYMENT III,
SUPPLEMENTAL LOAN

AID/LAC/P-133

Project Number: 532-0096
Loan Number: 532-K-022

UNCLASSIFIED

BEST AVAILABLE

9/30/75 (TM 4:1)

CLASSIFICATION:

Att 1 to App 3B, Ch 3, HB 4

AID 1120-1 (B-66)	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PAAD NO. Loan No. 532-K-022	
		2. COUNTRY JAMAICA	
		3. CATEGORY Cash Transfer	
		4. DATE March 1983	
PAAD	PROGRAM ASSISTANCE APPROVAL DOCUMENT	5. TO: M. Peter McPherson, A/AID	
6. FROM: <i>Ernst J. Brown</i> Otto J. Reich, AA/LAC		6. OVD CHANGE NO.	
7. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 25,000,000		6. OVD INCREASE	
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 25,000,000		TO BE TAKEN FROM: Economic Support Fund (ESF)	
10. APPROPRIATION - ALLOTMENT 72-1131037 LESA-83-35532-KL31		10. APPROPRIATION - ALLOTMENT	
11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input type="checkbox"/> GRANT <input checked="" type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD FY 1983	14. TRANSACTION ELIGIBILITY DATE
15. COMMODITIES FINANCED			

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only: 25,000,000	U.S.: 25,000,000
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash:	Other:

18. SUMMARY DESCRIPTION

The proposed \$25 million loan will (a) provide immediate balance-of-payments support to Jamaica; and (b) further stimulate production, employment, and exports. Conditions precedent to disbursement will be receipt of evidence satisfactory to AID that: (1) the loan agreement executed on behalf of the Borrower constitutes a legally binding obligation of the Borrower; (2) a person(s) has been appointed to act as authorized representative(s) of the Borrower; (3) the Borrower is in substantial compliance with the terms and conditions established for Jamaica under its Extended Fund Facility of the IMF and the Structural Adjustment Loan of the World Bank; and (4) the Government of Jamaica (GOJ) will agree in writing that, within 60 days of the date of the signing of the Loan Agreement, it will promulgate a plan and all necessary regulations to authorize commercial banks to: (a) accept deposits of foreign exchange in time accounts; (b) pay interest in foreign exchange on such accounts at rates determined by the banks; and (c) redeem such accounts in whole or in part, at maturity, in the currency in which the deposits were originally denominated.

The Borrower will also agree to a number of covenants, including; (1) to establish, upon disbursement of the loan, a local currency special account at the Bank of Jamaica in an amount equivalent to the loan proceeds, to be used for such activities as may be agreed

19. CLEARANCES	DATE	20. ACTION
LAC/CAR, JHoltaway		<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
LAC/DR, DBJohnson	3/22/83	<i>Ernst J. Brown</i>
GC/LAC, EWeighan	3/22/83	AUTHORIZED SIGNATURE
AA/PPC, JBolton	3/23/83	DATE
GC(acting), JMullen	3/22/83	
M/FM, CChristensen (phone)	3/22/83	
AEA/CCP, Colleen		
DAA/LAC, MDBrown		

CLASSIFICATION:

upon between the parties and is consistent with our overall assistance program; (2) to allocate foreign exchange for the importation of spare parts, capital goods, and industrial and agricultural inputs from the U.S. in an amount at least equivalent to the loan over a one-year period; (3) to provide the AID Mission with copies of all official data and internal projections relevant to requests for assistance and performance tests; (4) to prepare within three months of the date of this agreement an action program for divestment of publicly owned enterprises; (5) to encourage and assist the team of tax consultants, under the USAID/Board of Revenue Project during Jamaica JFY 1983-84, to establish contact and engage in consultative discussions with key GOJ officials and representatives of the public at large, and the private sector in particular; (6) to present to USAID/Jamaica a summary, within 90 days of the date of this agreement, of actions proposed to increase competition in areas of activity in which External Marketing Organizations (EMOs) and the Jamaica Commodity Trading Company (JCTC) are now engaged; (7) to review, within 120 days of the signing of this agreement, the roles, responsibilities and practices of public sector agencies involved in investment promotion, and to complete within 90 days of this review and action plan to simplify, consolidate, and coordinate the elements of the investment promotion function and implement this plan not later than March 31, 1984.

The terms of this loan will be 20 years with a 10-year grace period at an interest rate of 2 percent during the grace period and 3 percent thereafter.

Department of State

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ACTION AID-00

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ACTION OFFICE LADR-01
INFO APLA-01 LACO-02 LADP-03 PPCF-01 PDPR-01 PPPB-01 GC-01
GCFA-03 GCFL-01 IM-02 IS-01 AATD-01 CIA-05 OMB-02 INCY-05
R110-01 TELE 01 MACT-01 LACA-03 /041 A3 210

INFO OCT-00 INR-10 EB-00 ARA-00 INRE-00 /069 W
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FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC IMMEDIATE 0849

LIMITED OFFICIAL USE SECTION 01 OF 15 KINGSTON 02104

AIDAC

FOR LAC/DR: R. WHELDEN AND R. BURKE; GC/LAC: R. HEIGHAN

E.O. 12356: N/A
SUBJECT: PAAD FOR P & E III SUPPLEMENTAL LOAN, 532-0096

REF: KINGSTON 01227

- A. PAAD FACESHET
1. LOAN NO. 532-K-022
2. JAMAICA
3. CASH TRANSFER
4. (DATE)
5. TO: H. PETER MCPHERSON, A/AID
6. OYB CHANGE NO.
7. FROM: OTTO J. REICH, AA/LAC
8. ECONOMIC SUPPORT FUND (ESF)
9. \$25,000,000
10. BLANK
11. LOAN
12. INFORMAL
13. FY 83
14. DATE OF AUTHORIZATION
15. BLANK
16. U.S. ONLY \$25,000,000
17. U.S. \$25,000,000
18. SUMMARY DESCRIPTION:

1. THE PROPOSED \$25 MILLION CASH TRANSFER WILL (A) PROVIDE IMMEDIATE BALANCE-OF-PAYMENTS SUPPORT TO JAMAICA; AND (B) FURTHER STIMULATE PRODUCTION, EMPLOYMENT, AND EXPORTS. CONDITIONS PRECEDENT TO DISBURSEMENT WILL BE RECEIPT OF EVIDENCE SATISFACTORY TO AID THAT (1) THE LOAN AGREEMENT EXECUTED ON BEHALF OF THE BORROWER CONSTITUTES A LEGALLY BINDING OBLIGATION OF THE BORROWER, (2) A PERSON(S) HAS BEEN APPOINTED TO ACT AS AUTHORIZED REPRESENTATIVE(S) OF THE BORROWER, (3) THE BORROWER IS IN SUBSTANTIAL COMPLIANCE WITH TARGETS ESTABLISHED FOR JAMAICA UNDER THE EXTENDED FUND FACILITY OF THE INTERNATIONAL MONETARY FUND AND THE STRUCTURAL ADJUSTMENT LOAN OF THE WORLD BANK AND (4) THE GOVERNMENT OF JAMAICA WILL AGREE IN WRITING THAT, WITHIN 60 DAYS OF THE DATE OF SIGNED OF THE LOAN AGREEMENT, IT WILL EXAMINE THE FEASIBILITY OF, AND IF FEASIBLE, WILL PROMULGATE A PLAN AND ALL NECESSARY REGULATIONS TO AUTHORIZE COMMERCIAL BANKS TO: (A) ACCEPT DEPOSITS OF FOREIGN EXCHANGE IN TIME ACCOUNTS; (B) TO PAY INTEREST IN FOREIGN EXCHANGE ON SUCH ACCOUNTS AT RATES DETERMINED BY THE BANKS; AND (C) TO REDEEM SUCH ACCOUNTS IN WHOLE OR IN PART, AT MATURITY, IN THE CURRENCY IN WHICH THE DEPOSITS WERE ORIGINALLY DENOMINATED.

2. THE BORROWER WILL AGREE TO A NUMBER OF COVENANTS, WHICH WILL BE INCLUDED IN THE LOAN AGREEMENT, INCLUDING: (1) TO ESTABLISH A LOCAL CURRENCY SPECIAL ACCOUNT AT THE BANK OF JAMAICA, UPON DISBURSEMENT OF THE LOAN, IN AN AMOUNT EQUIVALENT TO THE LOAN PROCEEDS, WHICH AMOUNT SHALL BE USED FOR SUCH ACTIVITIES AS MAY BE AGREED UPON BETWEEN THE PARTIES; (2) TO ALLOCATE FOREIGN EXCHANGE FOR THE IMPORTATION OF SPARE PARTS, CAPITAL GOODS, AND INDUSTRIAL AND AGRICULTURAL INPUT FROM THE U.S. IN AN AMOUNT AT LEAST EQUIVALENT TO THE LOAN OVER A ONE-YEAR PERIOD; (3) TO PROVIDE THE AID MISSION WITH COPIES OF ALL OFFICIAL DATA AND INTERNAL PROJECTIONS RELEVANT TO REQUESTS FOR ASSISTANCE AND PERFORMANCE TESTS; TO INCLUDE, BUT NOT LIMITED TO: DETAILED BALANCE OF PAYMENTS DATA AND PROJECTIONS; ANNUAL PUBLIC SECTOR BUDGET RECEIPTS, OUTLAYS AND PROJECTIONS (AND REVISIONS); WEEKLY CABLE DATA PURSUANT TO THE EFF WITH THE IMF; NATIONAL ACCOUNTS PROJECTIONS AND SPECIAL STUDIES; ALL DATA AND DOCUMENTS PREPARED FOR CONSULTATIONS AND REVIEWS OF GOJ PERFORMANCE UNDER THE IMF AND IBRD PROGRAMS; (4) THE GOVERNMENT WILL, WITHIN THREE MONTHS OF THE DATE OF THIS AGREEMENT, PREPARE AN ACTION PROGRAM FOR DIVESTMENT OF PUBLICLY OWNED ENTERPRISES, LISTING BY NAME THE ENTERPRISES THE GOVERNMENT WILL SEE TO DIVEST ON REASONABLE TERMS, IN EACH FISCAL YEAR FROM 1983-84 TO 1985-86, THE MECHANISM FOR ACCOMPLISHING THE DIVESTMENT, AND THE FORM OF THE DIVESTMENT (I.E. SALE OR LEASE); (5) DURING JFY 1983-84 THE GOVERNMENT WILL ENCOURAGE AND ASSIST THE TEAM OF TAX CONSULTANTS UNDER THE USAID/BOARD OF REVENUE PROJECT, TO ESTABLISH CONTACT AND ENGAGE IN CONSULTATIVE DISCUSSIONS WITH KEY G.O.J. OFFICIALS AND WITH THE BROAD CROSS SECTION OF ORGANIZATIONS AND ASSOCIATIONS REPRESENTATIVE OF THE PUBLIC AT LARGE, AND THE PRIVATE SECTOR IN PARTICULAR; (6) WITHIN 90 DAYS OF THIS AGREEMENT, THE GOVERNMENT OF JAMAICA WILL PRESENT TO USAID/

Department of State

INCOMING
TELEGRAM

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ACTION AID-00

ACTION OFFICE LADR-03
INFO AALA-01 LACO-02 LADP-03 PPCE-01 PDPR-01 PPPG-03 GC-01
GCLA-03 GGFL-01 FM-02 ES-01 AAID-01 CIA-05 OHB-02 TRSY-05
RELO-01 TELE-01 MAST-01 LACA-03 /041 A3 210

INFO OCT-00 COPY-01 INR-10 CIAE-00 EB-00 ARA-00 L-03
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FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC IMMEDIATE 0850

LIMITED OFFICIAL USE SECTION 02 OF 15 KINGSTON 02104

-AIDAC

FOR LAC/DR: R. WHELDEN AND R. BURKE; GC/LAC: R. HEIGHAN

E.O. 12356: N/A
SUBJECT: PAAD FOR P & E III SUPPLEMENTAL LOAN, 532-0096

JAMAICA A SUMMARY OF ACTIONS PROPOSED TO INCREASE COMPETITION IN AREAS OF ACTIVITY IN WHICH EXTERNAL MARKETING ORGANIZATIONS (EMO) AND THE JAMAICA COMMODITY TRADING COMPANY (JCTC) ARE NOW ENGAGED; (7) WITHIN 120 DAYS OF THIS AGREEMENT THE GOVERNMENT OF JAMAICA WILL PRESENT TO USAID A REVIEW OF THE ROLES, RESPONSIBILITIES AND PRACTICES OF PUBLIC SECTOR AGENCIES INVOLVED IN INVESTMENT PROMOTION. WITHIN 90 DAYS OF SUBMISSION OF THE REVIEW, AN ACTION PLAN TO SIMPLIFY, CONSOLIDATE, AND COORDINATE THE ELEMENTS OF THE INVESTMENT PROMOTION FUNCTION WILL BE COMPLETED. THIS PLAN WILL BE IMPLEMENTED NOT LATER THAN MARCH 31, 1984.

- THE TERMS OF THIS LOAN WILL BE 20 YEARS WITH A 10-YEAR GRACE PERIOD AT AN INTEREST RATE OF 2 PERCENT DURING THE GRACE PERIOD AND 3 PERCENT THEREAFTER.

-B. ACTION MEMO FOR THE ADMINISTRATOR:

- SUBJECT: PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD) JAMAICA PRODUCTION AND EMPLOYMENT III PROGRAM SUPPLEMENT

PROBLEM: YOUR APPROVAL IS REQUIRED TO AUTHORIZE AN ADDITIONAL \$25 MILLION CASH TRANSFER TO JAMAICA FROM ECONOMIC SUPPORT FUNDS (ESF).

BACKGROUND: FOUR PREVIOUS, SIMILAR ESF CASH TRANSFER LOANS OF \$40, \$38, \$50 AND \$25 MILLION RESPECTIVELY, HAVE BEEN APPROVED BY THE LAC BUREAU SINCE JANUARY, 1981. THESE LOANS WERE DESIGNED TO HELP REDUCE THE FOREIGN EXCHANGE SHORTFALL IN JAMAICA AND PROVIDE ADDITIONAL RESOURCES SO THAT THE GOJ COULD EMBARK UPON AN ECONOMIC REVITALIZATION PROGRAM WHICH WOULD HELP REPLACE OLD FACTORY EQUIPMENT WITH NEW MACHINERY, PROVIDE SPARE PARTS, AND FINANCE CAPITAL GOODS TO EXPAND THE ECONOMY. IN SO DOING, THESE PROGRAMS WERE INTENDED TO HELP MOVE JAMAICA FROM AN IMPORT SUBSTITUTION TO AN EXPORT ORIENTED ECONOMY. IN ADDITION TO THESE FUNDS, \$3.0 MILLION IN ESF AND \$1.0 MILLION IN DA GRANT FUNDS HAVE BEEN PROVIDED FOR THE TECHNICAL CONSULTANTS AND TRAINING PROJECT (532-0079) WHICH IS BEING USED TO MEET TECHNICAL ASSISTANCE AND TRAINING NEEDS RELATED TO THE ECONOMIC RECOVERY PROGRAM. AN ADDITIONAL \$2 MILLION IS BEING CONSIDERED FOR THIS SUCCESSFUL, IMMEDIATE

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IMPACT PROGRAM.

DISCUSSION: THE GOVERNMENT OF JAMAICA HAS REQUESTED A \$35.0 MILLION SUPPLEMENT TO ITS FY 1983 ESF LOAN (NO. 532-K-020). THIS WILL BRING FY 1983 ESF LOANS TO JAMAICA TO A TOTAL OF \$50.0 MILLION. THE ORIGINAL LOAN WAS DISBURSED ON DECEMBER 21, 1982. AS WAS ANTICIPATED AT THAT TIME, THE PRESENT LOAN IS URGENTLY NEEDED TO ASSIST THE GOVERNMENT IN MEETING ITS PAYMENT OBLIGATIONS WITHOUT FALLING INTO ARREARS. THE GOVERNMENT ALSO FACES ON MARCH 31, YEAR-END TESTS OF PERFORMANCE UNDER THE TERMS OF ITS EXTENDED FUND FACILITY (EFF) WITH THE INTERNATIONAL MONETARY FUND. AT THE PRESENT, NET SHORT-TERM FOREIGN DEBT OF THE BANK OF JAMAICA IS APPROXIMATELY \$84 MILLION IN EXCESS OF THE CEILING UNDER THE IMF AGREEMENT. THERE IS A VERY REAL POSSIBILITY THAT THIS DEBT WILL REMAIN ABOVE THE CEILING ON THE TEST DATE.

PREVIOUS PAADS, AS WELL AS THIS ONE, HAVE BEEN PREPARED IN CONJUNCTION WITH THE IMF PROGRAM AND WITH THE IBRD'S STRUCTURAL ADJUSTMENT LOAN (SAL) TO THE GOVERNMENT. THE CONDITIONS PROPOSED FOR THIS LOAN SUPPORT AND COMPLEMENT THE CONDITIONS OF THE IMF AND IBRD PROGRAMS. TO DATE, THE GOVERNMENT HAS PASSED THE PERIODIC REVIEWS OF PERFORMANCE UNDER THOSE PROGRAMS. ON FEBRUARY 17, 1983, USAID/JAMAICA CONDUCTED THE FIRST OF ITS QUARTERLY REVIEWS WITH THE GOVERNMENT, ON PERFORMANCE UNDER THE TERMS OF USG, AS WELL AS IMF AND IBRD, ASSISTANCE PROGRAMS. THE MISSION WAS PLEASED WITH THE OUTCOME OF THAT REVIEW AS WELL. NEVERTHELESS, THE GOVERNMENT HAS FOUND IT PROGRESSIVELY MORE DIFFICULT TO STAY WITHIN THE GUIDELINES OF THE IMF AND IBRD PROGRAMS. SINCE IT BECAME EVIDENT THAT THE DEPRESSION OF THE WORLD MARKET FOR BAUXITE AND ALUMINA WOULD BE LONGER AND DEEPER THAN HAD BEEN ANTICIPATED, IT HAS BEEN CLEAR THAT THE PERFORMANCE TARGETS WOULD BE EXCEEDINGLY DIFFICULT

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ACTION OFFICE LADR-DJ
INFO AMIA-01 LACO-02 LADP-03 PFCE-01 PDPR-01 PPPB-03 GC-01
GCLA-03 GCFL-01 FM-02 ES-01 ARII-01 CIA-05 OMB-02 TRKY 05
RELC-01 TELE-01 MAST-01 LACA-03 /041 A3 218

INFO OCT-00 COPY-01 INR-10 CIAE-00 EB-08 ARA-00 L-03
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TO SECSTATE WASHDC IMMEDIATE 0851

LIMITED OFFICIAL USE SECTION 03 OF 15 KINGSTON 02104

AIDAC

FOR LAC/DR: R. WHELDEN AND R. BURKE; GC/LAC: R. MEIGHAN

E.O. 12356: N/A
SUBJECT: PAAD FOR P & E III SUPPLEMENTAL LOAN, 532-0096

TO MEET. THE TARGETS WERE BASED ON PROJECTIONS OF EXTERNAL CONDITIONS THAT DID NOT ANTICIPATE THE CONTRACTION.

THE GOVERNMENT HAS MADE SOME IMPORTANT PROGRESS IN MOVING AWAY FROM THE IMPORT-SUBSTITUTION STRATEGY OF THE NINETEEN SEVENTIES, TOWARD ITS OWN GOAL OF EXPORT ORIENTED GROWTH. THERE ARE MANY POLICY ADJUSTMENTS THAT ARE STILL NEEDED, AND THE DECLINE OF BAUXITE AND ALUMINA EARNINGS HAS LED TO MEASURES THAT ARE ANTI-THETICAL TO PRIVATE SECTOR-LED EXPORT GROWTH. THE MISSION IS MONITORING DEVELOPMENTS CLOSELY AND IS MAKING EFFECTIVE USE OF THE POLICY DIALOGUE TO URGE ADHERENCE TO THE GOALS AND METHODS OF THE ORIGINAL ECONOMIC RECOVERY PROGRAM.

THE GOVERNMENT APPEARS TO BE IN SUBSTANTIAL, IF NOT, PERFECT COMPLIANCE WITH THE TERMS AND CONDITIONS OF ITS AGREEMENTS WITH THE IMF AND IBRD. GIVEN THE GOVERNMENT'S CONTINUED COMMITMENT TO THE SPIRIT OF ITS ORIGINAL ECONOMIC RECOVERY PROGRAM, OUR CONTINUED SUPPORT OF THE GOVERNMENT AFFORDS THE OPPORTUNITY TO ENCOURAGE AND INFLUENCE THE DIFFICULT ECONOMIC POLICY CHOICES THAT ARE ESSENTIAL TO LONG-TERM ECONOMIC GROWTH.

RECOMMENDATION: THAT YOU SIGN THE ATTACHED PAAD FACE-SHEET AUTHORIZING \$25 MILLION FOR THE SUPPLEMENT TO THE JAMAICAN PRODUCTION AND EMPLOYMENT III PROGRAM.

I. RECOMMENDATION AND SUMMARY:

A. RECOMMENDATION:

IT IS RECOMMENDED THAT THE ADMINISTRATOR OF AID AUTHORIZE A LOAN FROM THE ECONOMIC SUPPORT FUND OF \$25.0 MILLION TO PROVIDE BALANCE OF PAYMENTS ASSISTANCE TO THE GOVERNMENT OF JAMAICA (GOJ).

B. SUMMARY JUSTIFICATION:

THE GOJ IS FACED WITH AN ENORMOUS BALANCE OF PAYMENTS GAP. IT IS CURRENTLY IMPLEMENTING THE EXTENDED FUND FACILITY (EFF) AGREEMENT WITH THE I.M.F. UNDER THIS AGREEMENT THE GOJ IS FOLLOWING AN ECONOMIC RECOVERY PROGRAM

AIMED TOWARD DEVELOPMENT OF THE PRIVATE SECTOR, WHILE THE IMF IS PROVIDING ASSISTANCE TO HELP IN THE FINANCING OF THE BALANCE OF PAYMENTS GAP. DESPITE EFFORTS OF THE GOVERNMENT, IT APPEARS THAT THE IMF TARGET FOR NET FOREIGN ASSETS MAY NOT BE MET AT THE MARCH 31 REVIEW. THE GOJ IS COMMITTED TO THE PROGRAM OF ECONOMIC RECOVERY BUT CONTINUES TO BE CONSTRAINED BY THE LACK OF FOREIGN EXCHANGE RESOURCES NEEDED TO PURCHASE ESSENTIAL RAW MATERIALS AND CAPITAL GOODS AND TO SERVICE ITS LARGE EXTERNAL DEBT. THE PROPOSED AID PROGRAM WILL HELP TO RELAX THE BALANCE OF PAYMENTS CONSTRAINT.

THE MISSION AND LAC BUREAU HAVE DETERMINED THAT ESF ASSISTANCE IS THE MOST APPROPRIATE AID MECHANISM TO ADDRESS THE BALANCE OF PAYMENTS PROBLEM AND TO RESPOND QUICKLY TO THE URGENT NEED FOR FOREIGN EXCHANGE. A CASH TRANSFER IS RECOMMENDED BECAUSE OF THE NEED TO ACCELERATE DISBURSEMENTS. THE SERIOUS ECONOMIC CIRCUMSTANCES FACING THE GOVERNMENT NECESSITATE A RAPID DISBURSEMENT OF U.S. DOLLARS WHICH CAN BEST BE PROVIDED USING THE CASH TRANSFER MECHANISM.

C. SUMMARY CONDITIONS AND COVENANTS:

(1) LENDING TERMS AND INTEREST RATE: THE BORROWER WILL REPAY THE LOAN TO A.I.D. IN U.S. DOLLARS WITHIN TWENTY (20) YEARS FROM THE DATE OF FIRST DISBURSEMENT INCLUDING A GRACE PERIOD OF NOT TO EXCEED TEN (10) YEARS. THE BORROWER WILL PAY INTEREST AT THE RATE OF 2 PERCENT PER ANNUM DURING THE GRACE PERIOD AND 3 PERCENT THEREAFTER. INTEREST SHALL BE PAYABLE SEMI-ANNUALLY. THE FIRST PAYMENT OF INTEREST SHALL BE DUE AND PAYABLE NO LATER THAN SIX MONTHS AFTER DISBURSEMENT OF THE LOAN.

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ACTION OFFICE LADR-03
INFO AALA-01 LACO-02 LADP-03 PPCE-01 PDPR-01 PPPB-03 GC-01
GCLA-03 GCFL-01 FM-02 ES-01 AAID-01 CIA-05 OMJ-02 TRSY-05
RELO-01 TELE-01 HAST-01 LACA-03 /041 A3 210

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TO SECSTATE WASHDC IMMEDIATE 0852

LIMITED OFFICIAL USE SECTION 04 OF 15 KINGSTON 02104

AIDAC

FOR LAC/DR: R. WHELDEN AND R. BURKE; GC/LAC: R. HEIGHAN

E.O. 12356: N/A
SUBJECT: PAAD FOR P & E III SUPPLEMENTAL LOAN, 532-0095

(2) REPAYMENT: THE BORROWER WILL REPAY THE PRINCIPAL WITHIN TWENTY (20) YEARS FROM THE DATE OF FIRST LOAN DISBURSEMENT HEREUNDER IN APPROXIMATELY EQUAL SEMIANNUAL INSTALLMENTS OF PRINCIPAL AND INTEREST. THE FIRST INSTALLMENT OF PRINCIPAL SHALL BE PAYABLE NINE AND ONE-HALF YEARS AFTER THE DATE ON WHICH THE FIRST INTEREST PAYMENT IS DUE.

(3) CONDITIONS PRECEDENT TO DISBURSEMENT: PRIOR TO THE \$25 MILLION DISBURSEMENT UNDER THE LOAN, OR TO THE ISSUANCE BY A.I.D. OF DOCUMENTATION PURSUANT TO WHICH THAT DISBURSEMENT WILL BE MADE, THE BORROWER WILL, EXCEPT AS THE PARTIES MAY OTHERWISE AGREE IN WRITING, FURNISH TO A.I.D., IN FORM AND SUBSTANCE SATISFACTORY TO A.I.D.:

--- AN OPINION BY THE ATTORNEY GENERAL OF THE BORROWER, OR OTHER COUNSEL SATISFACTORY TO A.I.D., STATING THAT THE LOAN AGREEMENT HAS BEEN DULY AUTHORIZED AND/OR RATIFIED BY, AND EXECUTED ON BEHALF OF, THE BORROWER AND THAT IT CONSTITUTES A VALID AND LEGALLY BINDING OBLIGATION OF THE BORROWER IN ACCORDANCE WITH ALL OF ITS TERMS.

--- A STATEMENT SIGNED BY THE GOJ OFFICIAL SIGNING THE LOAN AGREEMENT APPOINTING A NAMED PERSON OR PERSONS TO ACT AS AUTHORIZED REPRESENTATIVE(S) OF THE BORROWER FOR PURPOSE OF IMPLEMENTING THE LOAN AND REPRESENTING AND WARRANTING THAT SUCH PERSONS HAVE AUTHORITY TO SO ACT, TOGETHER WITH A SPECIMEN SIGNATURE OF EACH PERSON CERTIFIED AS TO ITS AUTHENTICITY.

--- EVIDENCE THAT THE BORROWER IS IN SUBSTANTIAL COMPLIANCE WITH THE CONDITIONS AND TERMS OF ITS EFF WITH THE INTERNATIONAL MONETARY FUND AND ITS STRUCTURAL ADJUSTMENT LOAN WITH THE WORLD BANK.

--- A LETTER FROM AN APPROPRIATE OFFICIAL STATING THAT, WITHIN 60 DAYS OF THE DATE OF SIGNING OF THIS AGREEMENT, THE GOJ WILL EXAMINE THE FEASIBILITY OF, AND IF FEASIBLE,

WILL PROMULGATE A PLAN AND ALL NECESSARY REGULATIONS TO AUTHORIZE COMMERCIAL BANKS TO: (A) ACCEPT DEPOSITS OF FOREIGN EXCHANGE IN TIME ACCOUNTS; (B) TO PAY INTEREST IN FOREIGN EXCHANGE ON SUCH ACCOUNTS AT RATES DETERMINED BY THE BANKS; AND (C) TO REDEEM SUCH ACCOUNTS IN WHOLE OR IN PART, AT MATURITY, IN THE CURRENCY IN WHICH THE DEPOSITS WERE ORIGINALLY DENOMINATED.

(4) COVENANTS: THE BORROWER WILL COVENANT TO THE EFFECT THAT: (A) USE OF AID ASSISTANCE WILL BE IN A MANNER WHICH WILL NOT CAUSE INJURY OR THREAT THEREOF TO THE PRODUCTION, MARKETING OR PRICING OF U.S. AGRICULTURAL COMMODITIES OR PRODUCTS; (B) TO ESTABLISH A LOCAL CURRENCY SPECIAL ACCOUNT AT THE BANK OF JAMAICA, UPON DISBURSEMENT OF THE LOAN, IN AN AMOUNT EQUIVALENT TO THE LOAN PROCEEDS, WHICH AMOUNT SHALL BE USED FOR SUCH ACTIVITIES AS MAY BE AGREED UPON BETWEEN THE PARTIES; (C) TO ALLOCATE FOREIGN EXCHANGE FOR THE IMPORTATION OF SPARE PARTS, CAPITAL GOODS, AND INDUSTRIAL AND AGRICULTURAL INPUT FROM THE U.S. IN AN AMOUNT AT LEAST EQUIVALENT TO THE LOAN OVER A ONE-YEAR PERIOD; (D) THE GOJ AND USAID/J WILL CONDUCT QUARTERLY REVIEWS OF PROGRESS UNDER THE CONDITIONS OF U.S., IMF, AND WORLD BANK ASSISTANCE; (E) ITS MINISTRY OF FINANCE WILL FURNISH SEMI-ANNUAL REPORTS CERTIFYING THAT THE LOAN-FUNDED IMPORTS CAME FROM THE U.S., INCLUDING THE NAMES OF THE SUPPLIER AND THE IMPORTING FIRMS, AND GIVING THE DATES OF PURCHASE AND A BRIEF DESCRIPTION OF THE GOODS IMPORTED; (F) ALL REPORTS RELATING TO THE THREE PRIOR CASH TRANSFER/PROGRAM LOANS DUE AT THE TIME OF DISBURSEMENT WILL BE SUBMITTED

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Department of State

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TELEGRAM

PAGE 01 KINGST 02104 05 07 15 100135Z 5499 003000 AID5536
ACTION AIC-00

ACTION OFFICE LADR-03
INFO AALA-01 LACO-02 LADP-03 PPCE-01 PDPR-01 PPPD-03 GC-01
GCLA-03 GCFL-01 FM-02 ES-01 AAID-01 CIA-05 DND-02 TRSY-05
RELO-01 TELE-01 MAST-01 LACA-03 /041 A3 210

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TO SECSTATE WASHDC IMMEDIATE 0853

LIMITED OFFICIAL USE SECTION 05 OF 15 KINGSTON 02104

AIDAC

FOR LAC/DR: R. WHELDEN AND R. BURKE; GC/LAC: N. HEIGHAN

E.O. 12356: N/A
SUBJECT: PAAD FOR P & E III SUPPLEMENTAL LOAN, 532-0006

- IN FORM AND SUBSTANCE SATISFACTORY TO AID.
- (G) THE GOVERNMENT WILL, WITHIN THREE MONTHS
- OF THE DATE OF THIS AGREEMENT, PREPARE AN
- ACTION PROGRAM FOR DIVESTMENT OF PUBLICLY
- OWNED ENTERPRISES, LISTING BY NAME THE ENTER-
- PRISES THE GOVERNMENT WILL SEEK TO DIVEST ON
- REASONABLE TERMS, IN EACH FISCAL YEAR FROM
- 1983-84 TO 1985-86, THE MECHANISM FOR ACCOM-
- PLISHING THE DIVESTMENT, AND THE FORM OF THE
- DIVESTMENT, (I.E. SALE OR LEASE); (H)
- DURING JFY 1983/84 THE GOVERNMENT WILL EN-
- COURAGE AND ASSIST THE TEAM OF TAX CONSULTANTS
- UNDER THE USAID/BOARD OF REVENUE PROJECT, TO
- ESTABLISH CONTACT AND ENGAGE IN CONSULTATIVE
- DISCUSSIONS WITH KEY G.O.J. OFFICIALS AND WITH
- THE BROAD CROSS SECTION OF ORGANIZATIONS AND
- ASSOCIATIONS REPRESENTATIVE OF THE PUBLIC AT
- LARGE, AND THE PRIVATE SECTOR IN PARTICULAR;
- (I) THE GOVERNMENT OF JAMAICA WILL PROVIDE
- USAID/JAMAICA, ON A ROUTINE BASIS, DATA AND
- DOCUMENTS RELEVANT TO BORROWER'S REQUEST FOR
- ASSISTANCE AND TO PROGRESS UNDER CONDITIONS
- OF IMF AND IBRD ASSISTANCE. (THESE DATA AND
- DOCUMENTS INCLUDE, BUT ARE NOT LIMITED TO:
- DETAILED BALANCE OF PAYMENTS DATA AND
- PROJECTIONS; PUBLIC SECTOR BUDGET RECEIPTS
- AND OUTLAYS AND PROJECTIONS (ANNUALLY AND AS
- REVISIONS ARE MADE); CABLE DATA PURSUANT TO
- THE EFF WITH THE IMF (WEEKLY); NATIONAL
- ACCOUNTS PROJECTIONS AND SPECIAL STUDIES; ALL
- DATA AND DOCUMENTS PREPARED FOR CONSULTATIONS
- AND REVIEWS OF PERFORMANCE UNDER IMF AND IBRD
- PROGRAMS IN JAMAICA). THIS DOCUMENTATION
- SHALL BE DELIVERED TO:

- THE SENIOR ECONOMIC ADVISOR
- USAID/JAMAICA
- AMERICAN EMBASSY
- MUTUAL LIFE BUILDING
- 2 OXFORD ROAD
- KINGSTON 5

- (J) WITHIN 90 DAYS OF THIS AGREEMENT, THE
- GOVERNMENT OF JAMAICA WILL PRESENT TO USAID/
- JAMAICA A SUMMARY OF ACTIONS PROPOSED TO
- INCREASE COMPETITION IN AREAS OF ACTIVITY IN

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- WHICH EMOS AND JCTC ARE NOW ENGAGED;
- (K) WITHIN 120 DAYS OF THIS AGREEMENT THE
- GOVERNMENT OF JAMAICA WILL PRESENT TO USAID
- A REVIEW OF THE ROLES, RESPONSIBILITIES AND
- PRACTICES OF PUBLIC SECTOR AGENCIES INVOLVED
- IN INVESTMENT PROMOTION. WITHIN 90 DAYS OF
- SUBMISSION OF THE REVIEW, AN ACTION PLAN TO
- SIMPLIFY, CONSOLIDATE, AND COORDINATE THE
- ELEMENTS OF THE INVESTMENT PROMOTION FUNCTION
- WILL BE COMPLETED. THIS PLAN WILL BE IMPE-
- NENTED NOT LATER THAN MARCH 31, 1984.

- (L) WAIVERS: NO WAIVERS ARE REQUIRED.

II. ECONOMIC ANALYSIS:

A. INTRODUCTION AND SUMMARY:

- THE JAMAICAN ECONOMY, LIKE THE ECONOMIES OF MOST OF
- THE SMALLER COUNTRIES OF THE WESTERN HEMISPHERE, IS
- IMPORTANTLY INFLUENCED BY ECONOMIC CONDITIONS IN THE
- DEVELOPED NATIONS. WHEN THE DEVELOPED ECONOMIES PERFORM
- WELL, AS IN THE NINETEEN SIXTIES, JAMAICA'S ECONOMY ALSO
- PERFORMS WELL. WHEN THE PACE OF THOSE ECONOMIES SLOWS,
- AS IN THE NINETEEN SEVENTIES, THE JAMAICAN ECONOMY ALSO
- SLOWS. IN A BROAD QUALITATIVE SENSE, THEREFORE, THE
- ECONOMIES OF JAMAICA AND OF THE ADVANCED INDUSTRIAL
- NATIONS MOVE IN TANDEM. MOREOVER, IT IS CLEAR THAT THE
- ECONOMIC CONDITIONS THAT INFLUENCE THEM BOTH, ORIGINATE
- OUTSIDE OF JAMAICA. THEY ARE, THEREFORE, BEYOND THE
- CONTROL OF JAMAICAN ECONOMIC POLICY.

- IN SPITE OF THE JAMAICAN ECONOMY'S SUSCEPTIBILITY
- TO EXTERNAL SHOCKS, THE FORM AND THE MAGNITUDE OF ITS
- RESPONSES TO CHANGES IN EXTERNAL CONDITIONS CAN BE
- INFLUENCED BY DOMESTIC ECONOMIC POLICY.

- IN THE ANALYSIS THAT FOLLOWS, WE HAVE UNDERTAKEN TO
- SEPARATE THE INFLUENCE OF EXTERNAL EVENTS, FROM THAT OF

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LARGELY BECAUSE OF, THE POOR PERFORMANCE OF THE REAL ECONOMIC MAGNITUDES, THE GOVERNMENT FINDS ITSELF IN SERIOUS JEOPARDY OF FAILING TO MEET AT LEAST ONE OF THE YEAR-END QUANTITATIVE PERFORMANCE TARGETS UNDER ITS EFF AGREEMENT WITH THE INTERNATIONAL MONETARY FUND.

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- THESE PERFORMANCE TARGETS OF THE G.O.J. WERE BASED ON A SET OF SIX-YEAR ECONOMIC PROJECTIONS. EXTERNAL FACTORS, PARTICULARLY THE WORLD MARKET FOR BAUXITE AND ALUMINA, WERE EXPECTED TO SUPPORT A STEADY GROWTH OF EXPORT EARNINGS THROUGH THE PERIOD OF THE ECONOMIC RECOVERY PROGRAM AND BEYOND. BAUXITE AND ALUMINA EXPORTS WERE EXPECTED TO REACH \$2.6 BILLION FROM 1981 THROUGH 1983, ACCOUNTING FOR 70 PERCENT OF PROJECTED COMMODITY EXPORTS, AND 49 PERCENT OF PROJECTED COMMODITY IMPORTS.

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TO SECSTATE WASHDC IMMEDIATE 0854

- THE ACTUAL RESULTS WERE OF COURSE FAR DIFFERENT FROM THOSE PROJECTED. THE TABLE BELOW SHOWS PROJECTED EXPORT GROWTH FOR 1981 THROUGH 1983, AND ACTUAL RESULTS FOR 1981 AND 1982.

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AIDAG

FOR LAC/DR: R. WHELDEN AND R. BURKE; GC/LAC: R. HEIGHAN

E.O. 12356: P/A
SUBJECT: PAAD FOR P & E III SUPPLEMENTAL LOAN, 532-0090

NATIONAL ECONOMIC POLICY. WE CONCLUDE THAT THE DISAPPOINTING PERFORMANCE OF THE JAMAICAN ECONOMY IN 1982 IS ATTRIBUTABLE, IN THE FIRST INSTANCE, TO THE SEVERELY DEPRESSED CONDITIONS IN THE WORLD MARKET FOR BAUXITE AND ALUMINA. NEVERTHELESS, PUBLIC ECONOMIC POLICY IS DEEMED TO HAVE CONTRIBUTED IN TWO WAYS TO THE MAGNITUDE OF THE CONSEQUENCES OF THE DRAMATIC DECLINE IN FOREIGN EXCHANGE EARNINGS IN THIS SECTOR. FIRST, THE PACE OF REMOVAL OF POLICY-RELATED STRUCTURAL OBSTRUCTIONS TO PRIVATE INVESTMENT AND PRODUCTION HAS BEEN INORDINATELY SLOW. SECOND, A DEARTH OF CONTINGENCY PLANNING FOR DEALING WITH ADVERSE EXTERNAL CONDITIONS HAS RESULTED IN DIVERSION OF THE ATTENTION OF KEY ECONOMIC POLICY OFFICIALS FROM MEDIUM AND LONG-TERM GROWTH OBJECTIVES TO MANAGEMENT OF RECURRENT IMMEDIATE CRISES.

GROWTH OF EXPORT EARNINGS

	1981		1982		1983
	PROJECTED	ACTUAL	PROJECTED	ACTUAL	PROJE
	PERCENTAGE CHANGE FROM PREVIOUS YEAR				
TOTAL GOODS	16.8	1.2	12.7	-25.1	13.
- BAUXITE/					
- ALUMINA	15.4	3.3	9.0	-26.5	11.
- SUGAR	25.9	-15.0	26.0	2.6	9.
- BANANAS	75.0	-58.7	33.8	86.1	17.
- OTHER	14.7	-4.1	20.0	17.7	19.

- THESE JUDGEMENTS, HOWEVER, ARE OF A PURELY ECONOMIC CHARACTER, AND ARE BASED PARTIALLY ON HIND-SIGHT. THEY DO NOT OVER-SHADOW, IN OUR OPINION, THE MAJOR POSITIVE STEPS THAT HAVE BEEN TAKEN BY THE SEAGA GOVERNMENT TOWARD SOUND FISCAL AND MONETARY MANAGEMENT, ENCOURAGING EXPANDED PARTICIPATION OF THE PRIVATE SECTOR IN THE ECONOMIC LIFE OF THE NATION, AND RESTORING CONFIDENCE IN THE FUTURE OF JAMAICA BOTH AT HOME AND ABROAD. RATHER, THEY REFLECT OUR PERCEPTION OF PROBLEMS THAT MUST BE ADDRESSED, ON A PRIORITY BASIS, IF THE RECOVERY PROGRAM IS TO BE SUSTAINED AND THE ECONOMY IS TO BE POISED TO RESPOND VIGOROUSLY AS WORLD ECONOMIC CONDITIONS IMPROVE.

SOURCE: BANK OF JAMAICA

- ACCORDINGLY, WE ENDORSE AND RECOMMEND APPROVAL OF THE GOVERNMENT OF JAMAICA'S REQUEST FOR A \$25 MILLION SUPPLEMENT TO ITS FY 1983 ESF LOAN, PRODUCTION AND EMPLOYMENT LOAN III (P & F III).

- PRELIMINARY ESTIMATES SHOW 1982 BAUXITE AND ALUMINA EXPORTS TO HAVE REACHED ONLY US\$482.4 MILLION, 56 PERCENT

B. RECENT ECONOMIC PERFORMANCE:

- AS WE HAVE REPORTED PREVIOUSLY, THE ECONOMIC RECOVERY THAT BEGAN IN 1981, STALLED IN 1982. THE GROWTH OF PRODUCTION HAS BARELY MATCHED THE GROWTH OF POPULATION, WHEN 1981 AND 1982 ARE TAKEN TOGETHER. THE UNEMPLOYMENT RATE IS BACK TO ITS 1980 LEVEL OF 27 PERCENT. EXPORT EXPANSION HAS LAGGED. THE MONETARY AND FISCAL DISCIPLINE THAT CHARACTERIZED 1981 HAS BEEN RELAXED, AT LEAST MOMENTARILY. REALISTICALLY, THE RECOVERY PROGRAM IS TWO YEARS BEHIND SCHEDULE. IN ADDITION TO, AND

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AIDAC

FOR LAC/DR: R. WHELDEN AND R. BURKE; GC/LAC: R. HEIGHAN

E.O. 12356: N/A
SUBJECT: PAAD FOR P & E III SUPPLEMENTAL LOAN, 532-0096

OF THE PROJECTED LEVEL ON WHICH THE PROGRAM WAS BASED.

- FOREIGN EXCHANGE EARNINGS FROM BAUXITE AND ALUMINA EXPORTS REPRESENTED 15 OF GDP IN 1982. AFTER ALLOWING FOR THE COST OF IMPORTED INPUTS, BAUXITE AND ALUMINA EXPORTS STILL ACCOUNT FOR OVER 7 PERCENT OF GDP. IT IS CLEAR, THEREFORE, THAT THE DECLINE OF DEMAND IN THE WORLD MARKET FOR BAUXITE AND ALUMINA CONSTITUTED A SEVERE SHOCK TO THE JAMAICAN ECONOMY.

- NOMINAL GDP IN 1982 IS NOW ESTIMATED TO HAVE REACHED ONLY 81 PERCENT OF THE LEVEL ANTICIPATED IN THE PROJECTIONS UPON WHICH THE TARGETS OF THE ECONOMIC RECOVERY PROGRAM WERE BASED. REAL GDP, ON THE OTHER HAND, IS ESTIMATED BY THE NATIONAL PLANNING AGENCY TO HAVE INCREASED SUFFICIENTLY IN 1981 AND 1982 TO BE WITHIN FIVE PERCENTAGE POINTS OF THE LEVEL ANTICIPATED IN THE PROGRAM FOR 1982.

- THE FOREGOING DATA REPRESENT RATHER ROUGH ESTIMATES, AND THE QUALITY OF DATA IN JAMAICA DOES NOT WARRANT GREAT CONFIDENCE IN THE ABSOLUTE MAGNITUDES. NEVERTHELESS, THE DIRECTIONS OF CHANGE AND THE RELATIVE VALUES OF THE VARIABLES CITED SEEM CREDIBLE. THERE IS CERTAIN ROOM FOR DISAGREEMENT WITH MANY OF THE POLICY CHOICES THE GOJ HAS MADE, AND INDEED WE HAVE EXPRESSED OUR DISAGREEMENT WITH MANY OF THEM. NEVERTHELESS, WHEN JAMAICA ECONOMIC PERFORMANCE IS EXAMINED IN THE CONTEXT OF WORLD ECONOMIC CONDITIONS IN 1982, IT MUST BE CONCEDED THAT THE RESULTS COULD EASILY HAVE BEEN WORSE THAN THEY HAVE BEEN.

- FOLLOWING BAUXITE AND ALUMINA IN IMPORTANCE AS A FOREIGN EXCHANGE EARNER, IS TOURISM. THE REBOUND OF THE TOURIST SECTOR HAS MITIGATED TO SOME DEGREE THE IMPACT OF THE BAUXITE/ALUMINA CONTRACTION. FOREIGN EXCHANGE EARNINGS FROM THIS SECTOR HAVE IN FACT EXCEEDED THE LEVELS ANTICIPATED IN PLANNING THE ECONOMIC RECOVERY PROGRAM. FOR 1982, NET FOREIGN TRAVEL EARNINGS ARE ESTIMATED AT US\$343 MILLION, WHICH, AT THE OFFICIAL RATE OF EXCHANGE, IS 13 PERCENT OF GDP. THIS EXCEEDS THE EARLY PROGRAM PROJECTIONS BY ONE THIRD.

- FOREIGN ASSISTANCE HAS, OF COURSE, FLOWED INTO JAMAICA AT AN EXTRAORDINARY RATE IN THE PAST TWO YEARS. THERE CAN BE NO DOUBT THAT THESE RESOURCES HAVE ABSORBED

MUCH OF THE SHOCK OF THE DEPRESSED CONDITIONS IN THE BAUXITE/ALUMINA MARKET. NEVERTHELESS, FOREIGN ASSISTANCE WAS ANTICIPATED IN PREPARING THE PROJECTIONS. CONSEQUENTLY THE BAUXITE AND ALUMINA SHORT-FALLS, TOURISM NOTWITHSTANDING, RESULTED IN A SIGNIFICANT SHORTAGE OF FOREIGN EXCHANGE RESOURCES RELATIVE TO LEVEL ANTICIPATED DURING DISCUSSIONS LEADING TO THE SELECTION OF THE RECOVERY PROGRAM'S QUANTITATIVE PERFORMANCE TARGETS.

- GIVEN THE GOJ'S POLICY OF ADHERING TO A FIXED (OVER-VALUED) EXCHANGE RATE FOR MOST TRANSACTIONS, AND THE IMPORT LEVELS PROJECTED AS ESSENTIAL TO THE ECONOMIC RECOVERY PROGRAM, IT WAS INEVITABLE THAT THE EXCESS DEMAND FOR FOREIGN EXCHANGE WOULD BECOME MORE SEVERE DURING 1982. THIS INTENSIFYING DISEQUILIBRIUM WAS THE MANIFESTATION OF THE ULTIMATELY INESCAPABLE REALITY THAT THE WORLD WIDE REDUCTION IN THE DEMAND FOR BAUXITE AND ALUMINA REDUCED JAMAICA'S AGGREGATE REAL WEALTH, AND HENCE ITS COMMAND OVER REAL GOODS AND SERVICES. IT WAS THE GOVERNMENT'S ATTEMPTS TO DEAL WITH THE EXIGENCIES OF THIS REALITY, OR PERHAPS TO POSTPONE DEALING WITH THEM, THAT HAVE BEEN SEEN AS DEPARTURES FROM THE POLICIES DIRECTED TOWARD PRIVATE SECTOR LED, EXPORT ORIENTED, LONG-TERM GROWTH. THE FOCUS OF POLICY CHANGED DURING 1982 FROM THE MANAGEMENT OF ON-TRACK, STRONG, POSITIVE REAL GROWTH TO THE MANAGEMENT OF SERIOUS SHORT-FALLS OF RESOURCE AVAILABILITIES. TO HIGHLIGHT THE RELATIONSHIP BETWEEN ECONOMIC PERFORMANCE AND ECONOMIC POLICY, THIS REVIEW OF THE JAMAICAN ECONOMY IS ORGANIZED UNDER THE PRINCIPAL CATEGORIES OF PUBLIC ECONOMIC POLICY.

1. FOREIGN TRADE AND PAYMENTS.

- THE GOJ ECONOMIC RECOVERY PROGRAM ANTICIPATED FOREIGN EXCHANGE INFLOWS IN FY 1982/83 (APRIL 1, 1982 - MARCH 31, 1983) OF US\$1.78 BILLION. THIS WAS EXPECTED TO FINANCE MERCHANDISE IMPORTS OF \$1.73 BILLION AND TO PROVIDE A MODEST INCREMENT TO INTERNATIONAL RESERVES.

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CONSUMER GOODS SUCH AS FOOD AND MEDICINE, THE GOVERNMENT UNDERTOOK MEASURES OF DIRECT CONTROL THROUGH MORE RESTRICTIVE IMPORT LICENSING PROCEDURES AND TOUGHER ENFORCEMENT OF IMPORT RESTRICTIONS AND EXCHANGE CONTROLS. FOREIGN DEBT SERVICE AND IMPORTS FOR THE PUBLIC SECTOR WERE GIVEN FIRST CLAIM ON FOREIGN EXCHANGE RESOURCES, TO THE DETRIMENT OF PRIVATE PRODUCERS. LITTLE CONFIDENCE WAS DISPLAYED BY THE GOVERNMENT IN PRIVATE MARKET FORCES TO INDUCE CUTBACKS THAT CONFORMED TO THE GOVERNMENT'S PRIORITIES.

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TO SECSTATE WASHDC IMMEDIATE 0856

- THE REGULATORY APPROACH WAS PROBABLY MORE OR LESS SUCCESSFUL IN INFLUENCING THE RELATIVE DEGREES OF SHORT-TERM RETRENCHMENT AMONG THE BROAD ECONOMIC CATEGORIES OF PUBLIC VIS-A-VIS PRIVATE SECTORS, CONSUMER GOODS VIS-A-VIS PRODUCER GOODS, AND BASIC CONSUMER GOODS VIS-A-VIS LUXURIES. HOWEVER, NEITHER THE QUALITY OF DATA AVAILABLE NOR THE ANALYTICAL CAPABILITY OF ECONOMIC PLANNING ENTITIES IS CONSIDERED UP TO THE TASK OF ALLOCATING RESOURCES WITHIN THESE CATEGORIES WITH GREATER EFFICIENCY THAN WOULD BE ACHIEVED THROUGH BROADER APPLICATION OF MARKET TESTS. THIS HAS BEEN, AND REMAINS, OUR PRINCIPAL CRITICISM OF PUBLIC ECONOMIC POLICY.

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AIDAC

FOR LAC/DR: R. WHELDEN AND R. BURKE; GC/LAC: R. MEIGHAN

E.O. 12356: N/A
SUBJECT: PAAD FOR P & E III SUPPLEMENTAL LOAN, 532-0896

- IN ADDITION TO THE ALLOCATION PROBLEM REFERRED TO ABOVE, THE GOVERNMENT'S APPROACH TO MANAGEMENT OF THE FOREIGN EXCHANGE SHORTAGE ESSENTIALLY TAKES THE SIZE OF THE EXPECTED SHORTAGE AS A GIVEN. UNTIL IMPLEMENTATION BY THE GOVERNMENT ON JANUARY 10, 1983, OF THE EXPORT INCENTIVES SCHEME, INCLUDING THE BROADENING AND INSTITUTIONALIZATION OF THE PARALLEL FOREIGN EXCHANGE MARKET, NO SIGNIFICANT POLICY MEASURES WERE DIRECTED TOWARD THE ATTRACTION OF ADDITIONAL FOREIGN EXCHANGE INFLOWS. TWO SUCH MEASURES HAVE NOW BEEN ACCEPTED AS CONDITIONS OF THIS PROPOSED SUPPLEMENT TO P & E III.

THE LATEST BANK OF JAMAICA ESTIMATES (FEBRUARY 3, 1983) ARE THAT EXPORTS AND CAPITAL INFLOWS WILL REACH ONLY \$1.33 BILLION, AND MERCHANDISE IMPORTS WILL BE \$1.37 BILLION, REQUIRING A FURTHER REDUCTION IN INTERNATIONAL RESERVES. THUS THE SHORT-FALL (450 MILLION) EXCEEDS THE CUT-BACKS IN IMPORTS (\$360 MILLION). THIS ILLUSTRATES THE DILEMMA THE GOVERNMENT HAS HAD TO FACE IN THE PRESENT YEAR.

- IMPORTS OF RAW MATERIALS, SPARE PARTS, AND CAPITAL EQUIPMENT ARE CRITICAL TO THE ECONOMIC RECOVERY PROGRAM. IMPORTS OF BASIC CONSUMER GOODS ARE AN ESSENTIAL PART OF THE GOVERNMENT'S ANTI-INFLATION PROGRAM. MOREOVER, THE PRESENT GOVERNMENT'S POPULAR SUPPORT IS ATTRIBUTABLE IN LARGE MEASURE TO PRIME MINISTER SEAGA'S COMMITMENT TO "PUT GOODS BACK ON THE SHELVES". FINALLY, THE GOVERNMENT SOUGHT TO SHIELD, TO THE GREATEST EXTENT POSSIBLE WITHIN ITS OVER-ALL GOALS, THE IMPECUNIOUS MAJORITY OF THE POPULATION, WHO LIVE AT OR NEAR SUBSISTENCE LEVELS ALREADY. THUS, THERE ARE A MYRIAD OF POLITICAL, SOCIAL, AND ECONOMIC CONSIDERATIONS THAT ENTER INTO DECISIONS THAT DETERMINE HOW THE BURDEN WILL BE SHARED AMONG SECTORS OF THE ECONOMY.

- THE IMPLEMENTATION OF THE EXPORT INCENTIVES SCHEME REPRESENTED A MAJOR QUALITATIVE CHANGE IN PUBLIC POLICY IN THE FOREIGN SECTOR. IT PROVIDED SIGNIFICANT

- THE BANK OF JAMAICA'S ESTIMATE OF THE FUNCTIONAL DISTRIBUTION OF FY 1982/83 IMPORTS IS AS FOLLOWS:

	MIL. US\$	PERCENT OF TOTAL
- CONSUMER GOODS	221	16
- RAW MATERIALS	403	29
- FUEL	430	31
- CAPITAL GOODS	316	23
- TOTAL	1,370	99

- THE GOVERNMENT'S APPROACH TO RATIONING FOREIGN EXCHANGE HAS BEEN A COMBINATION OF PLANNING AND REGULATION ON ONE HAND, AND ALLOWING MARKET RATIONING ON THE OTHER. PRINCIPAL FOREIGN ASSISTANCE DONORS (IMF, IBRD, AND AID) HAVE FELT THAT PLANNING AND REGULATORY APPROACHES HAVE BEEN RELIED UPON EXCESSIVELY. THE UNEXPECTED SHORTFALLS OF 1982 ELICITED A FURTHER RETREAT FROM RELIANCE ON MARKET FORCES. IN AN EFFORT TO ASSURE THAT THE BURDEN OF THE INCREASED SHORTAGE DID NOT FALL TOO HEAVILY UPON IMPORTS OF PRODUCTIVE INPUTS, OR BASIC

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PART OF USAID/JAMAICA'S POLICY DIALOGUE WITH THE GOJ, IS OUR EMPHASIS ON THE NECESSITY OF ACCEPTING SOME OF THESE CONSEQUENCES, -ON DEALING WITH THEM IN A DIFFERENT WAY, IF LONG-TERM, SUSTAINED, ECONOMIC GROWTH IS TO BE ACHIEVED. IN URGING THIS COURSE, HOWEVER, IT IS EQUALLY IMPORTANT THAT WE EXHIBIT OUR READINESS TO ASSIST THE GOJ IN ADOPTING THE COSTS OF THE ADJUSTMENT.

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INFO ARIA-01 LACO-02 LADF-03 PPCE-01 PDPR-01 PPPB-01 GC-01
GCLA-03 GCFL-01 FM-02 ES-01 HAID-01 CIA 05 OMD-02 TRSY-05
RELO-01 TILT-01 MAST-01 LACA-03 /041 AJ 210

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AIDAC

FOR LAC/DR: R. WHELDEN AND R. BURKE; GC/LAC: R. HEIGHAN

E.O. 12356: N/A
SUBJECT: PAAD FOR P & E III SUPPLEMENTAL LOAN, 532-0096

PECUNIARY INCENTIVES TO EXPORTERS, AND IS ATTRACTING APPROXIMATELY US\$5 MILLION PER WEEK INTO THE COMMERCIAL BANKS. SOME OF THIS REPRESENTS FUNDS THAT WOULD OTHERWISE HAVE FLOWED INTO THE BANK OF JAMAICA AND HENCE TO THE OFFICIAL FOREIGN EXCHANGE BUDGET. NEVERTHELESS, IT IS ALSO CLEAR THAT SOME OF THESE INFLOWS HAVE COME INTO THE BANKING SYSTEM FROM THE "STREET" MARKET, AND SOME UNDOUBTEDLY REPRESENT NET INCREMENTS TO FOREIGN EXCHANGE. THE GOVERNMENT EXPECTS FOREIGN EXCHANGE INFLOWS TO REACH \$10 MILLION WEEKLY DURING 1983. AS A RESULT OF ITS INFLUENCE ON MANUFACTURING EXPORTS, THIS SYSTEM IS EXPECTED BY THE BANK OF JAMAICA TO BOOST GDP BY A LITTLE OVER ONE PERCENT IN CALENDAR 1983 AND FISCAL YEAR 1983/84.

- AS NOTED ABOVE, THE EXPORT INCENTIVES SCHEME IS A MAJOR QUALITATIVE CHANGE IN POLICY. THE FORM IN WHICH THE SCHEME WAS ADOPTED, HOWEVER, GAVE IT APPRECIABLY NARROWER SCOPE THAN WAS ANTICIPATED IN EARLY DISCUSSIONS. ONLY NON-TRADITIONAL EXPORTERS WILL HAVE SIGNIFICANT ACCESS TO ITS INCENTIVES. THIS INCLUDES ONLY 7 PERCENT OF ESTIMATED 1983/84 MERCHANDISE EXPORTS. IN THE TOURIST SECTOR, ONLY 34 PERCENT OF NET FOREIGN EXCHANGE EARNINGS ARE EXPECTED TO FLOW THROUGH THE PARALLEL MARKET.

- ON THE IMPORT SIDE, THREE FOURTHS OF C.I.F. IMPORTS ARE STILL TO BE FINANCED THROUGH THE OFFICIAL FOREIGN EXCHANGE BUDGET, AT THE OFFICIAL RATE OF EXCHANGE. THE PARALLEL MARKET RATE AT COMMERCIAL BANKS HAS RANGED BETWEEN 35 PERCENT AND 60 PERCENT ABOVE THE OFFICIAL RATE. (IT IS LIKELY TO SETTLE, IN OUR ESTIMATION, CLOSER TO THE LOWER BOUND OF THAT RANGE THAN TO THE UPPER BOUND). CONSEQUENTLY THE VERY SIGNIFICANT SEGMENT OF THE EXPORT INDUSTRY THAT HAS THUS FAR BEEN EXCLUDED FROM THE PECUNIARY INCENTIVES OF THE NEW SYSTEM, IS LEFT AT A VERY SIGNIFICANT DISADVANTAGE. TO INCLUDE THEM, HOWEVER, WOULD REDUCE THE AVAILABILITY OF THE SUBSIDIZED FOREIGN EXCHANGE OF THE OFFICIAL BUDGET, AND WOULD THEREFORE REQUIRE INCREASES IN PRICES TO CONSUMERS OF THE SUBSIDIZED GOODS, REDUCTIONS IN THE PROFITS OF IMPORTERS (PRIMARILY THE GOVERNMENT ITSELF), AND/OR INCREASED GOVERNMENT SUBSIDIES. IN FACT, IT WOULD BE LIKELY TO INVOLVE A COMBINATION OF THESE THREE RESULTS. EACH IS UNPALATABLE TO THE GOVERNMENT ON SOCIAL, POLITICAL OR ECONOMIC GROUNDS. AN IMPORTANT

- A SUMMARY OF BANK OF JAMAICA ESTIMATES OF THE DISTRIBUTION OF BALANCE OF PAYMENTS EARNINGS AND EXPENDITURES, FOR 1982/83 AND 1983/84 IS PRESENTED BELOW.

	1982/83			1983/84		
	OFFICIAL	PARALLEL	NON-MARKET	OFFICIAL	PARALLEL	NON-MARKET
CURRENT ACCOUNT	-279	113	-263	331	127	-293
EXPORTS	545	159	371	569	186	394
- TRADIT.	279	0	271	276	0	261
- NON-TRADIT.	76	31	80	55	54	109
- TRAVEL (NET)	190	128	20	238	132	24
IMPORTS (CIF)	-824	-187	-631	-875	-236	-674
- MERCHANDISE	-543	-200	-627	-535	-251	-664
- NON-TRAVEL	-280	13	-4	-340	15	-10
TRANSFERS (NET)	-1	141	-3	-25	177	-13
CAPITAL ACC'T.	176	-113	263	391	-127	293
DONOR COUNTRIES	166	0	106	162	71	114
MULTI-LATERALS	35	0	23	70	0	45
COMMERCIAL BNKS.	50	0	0	90	0	0

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BRING THE DEBT WITHIN THE LETTER OF THE TARGETS.

ACTION OFFICE LADR-BJ
INFO AMIA-01 LACO-02 LADP-01 PPCI-01 PPR-01 PPR-01 GS-P1
GCLA-03 GCFL-01 FM-02 IS-01 RAID-01 CIA-05 OPI-02 PRSY-02
RELO-01 TIE-01 ST-01 LACA-02 ZPA1 AS 21

INFO COT-00 COM-01 IM-01 CIAE-01 FO-01 AP-01 050-00
L-03 INGE-00

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FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC IMMEDIATE 0856

LIMITED OFFICIAL USE SECTION 10 OF 15 KINGSTON 02104

AIDAC

FOR LAC/DR: R. WHELDEN AND R. BURKE; GC/LAC: R. KEIGAN

E.O. 12356: N/A
SUBJECT: PAAD FOR P & E III SUPPLEMENTAL LOAN, 532-0096

RE-FINANCING

- TRINIDAD						
- & TOBAGO	30	0	0	41	0	0
- VENEZUELA	35	0	0	0	0	0
- BAUXITE						
- (SPECIAL) 3)	103	0	- 19	- 39	0	- 34
- OFFIC. DEBT						
- PAYMENTS	-197	0	0	-236	0	0
- PRIVT. CAPIT.	-103	-113	88	- 27	-198	- 18
- OTHER	57	0	65	29		
- BOJ PURCHASE						
- ON PARALLEL						
- MARKET	0	0	0	301	0	0

OVER-ALL
BALANCE -103 0 0 60 0 0
- SOURCE: BANK OF JAMAICA, FEBRUARY 3, 1983.

- NOTES: 1) INCLUDES BARTER, BAUXITE AND ALUMINA STOCKPILE PURCHASES, AND IN-KIND OR TIED FOREIGN CREDITS.
- 2) BAUXITE, ALUMINA, SUGAR AND BANANAS.
- 3) PRINCIPALLY BAUXITE LEVY PRE-PAYMENT OPERATIONS.

- AT THE TIME OF THE FIRST QUARTERLY REVIEW (FEBRUARY 24, 1983) PURSUANT TO THE TERMS OF P & E III, NET DOMESTIC ASSETS OF THE BANK OF JAMAICA, NET DOMESTIC CREDIT TO THE PUBLIC SECTOR, AND NET INTERNATIONAL LIABILITIES WERE ALL IN EXCESS OF THE PROGRAM TARGETS. IT IS REASONABLY LIKELY THAT THE FIRST TWO CAN BE BROUGHT TO WITHIN THE TARGET LEVELS BY MARCH 31, THE END OF THE SECOND YEAR OF THE EFF. NET INTERNATIONAL LIABILITIES, HOWEVER, MAY REMAIN ABOVE THE TARGET LEVEL OF US\$17 MILLION. ON JANUARY 19, 1983, THIS ACCOUNT WAS AT US\$599 MILLION. THERE ARE SOME POSSIBILITIES FOR BRIDGING ARRANGEMENTS WITH GOVERNMENTS WHO HOLD SHORT-TERM CLAIMS AGAINST JAMAICA. HOWEVER, THIS WOULD INVOLVE LODGING OF SHORT-TERM DEPOSITS WITH THE BANK OF JAMAICA, OR NEGOTIATIONS TO EXTEND THE MATURITIES OF CLAIMS BEYOND THE TERM OF MATURITIES THAT ARE INCLUDED IN THE TARGET CEILING. IN THE SUBSTANTIVE SENSE, THEREFORE, THE TARGET IS

IN ASSESSING JAMAICAN ECONOMIC PERFORMANCE, HOWEVER, IT IS IMPORTANT TO LOOK TO MORE THAN A SINGLE QUANTITATIVE TARGET THAT WAS ESTABLISHED TWO YEARS AGO. THIS IS ALL THE MORE TRUE AS THE TARGETS WERE BASED ON PROJECTIONS OF EXTERNAL INFLUENCES THAT HAVE TURNED OUT TO BE UNDULY OPTIMISTIC. FROM THE POINT OF VIEW OF A DONOR SUCH AS AID THAT IS CONCERNED WITH LONG-TERM ECONOMIC GROWTH, NEITHER A SINGLE FOREIGN SECTOR PERFORMANCE MEASURE NOR COMPLETE COINCIDENCE OF GOVERNMENT ECONOMIC POLICY OPINIONS, IS SUFFICIENT (OR NECESSARY) TO DETERMINE WHETHER THE ASSISTANCE CAN ACHIEVE SUBSTANTIALLY ITS OBJECTIVES.

- THE BANK OF JAMAICA'S LIQUID GROSS INTERNATIONAL ASSETS WERE A MERELY US\$7.1 MILLION IN MARCH 1981, AND TOTAL INTERNATIONAL ASSETS WERE ONLY \$73.6 MILLION (LESS THAN 3 WEEKS MERCHANDISE IMPORTS AT 1981 IMPORT RATES). BY MARCH 1982 LIQUID ASSETS HAD RISEN TO \$76.7 MILLION AND TOTAL ASSETS TO \$126.8 MILLION (JUST OVER 4 WEEKS OF 1982 IMPORTS). PRESENT ESTIMATES FOR MARCH 1983, FOR LIQUID AND TOTAL ASSETS ARE RESPECTIVELY \$111.6 MILLION AND \$166.1 MILLION (6 WEEKS OF 1983 IMPORTS). WHILE THE MARCH 1983 ESTIMATES ARE SOMEWHAT OPTIMISTIC, THE FACT OF THE INCREASE, IF NOT ITS MAGNITUDE, REMAINS VALID.

- NEAR-TERM FOREIGN LIABILITIES, OF COURSE, HAVE INCREASED DRAMATICALLY IN THE PAST YEAR, RISING FROM \$600 MILLION IN MARCH 1982 TO \$684 MILLION IN MARCH 1983. THIS DEBT, ALONG WITH NEWLY ACQUIRED LONG-TERM DEBT OF THE GOVERNMENT, WILL IMPOSE A HEAVY DEBT SERVICE BURDEN IN THE YEARS AHEAD. SIGNIFICANT FURTHER POLICY ADJUSTMENTS ARE ESSENTIAL, AND POLICY ADJUSTMENTS TO DATE TOWARD THE FOREIGN SECTOR HAVE BEEN SLOW AND SMALLER THAN WE WOULD HAVE PREFERRED. NEVERTHELESS,

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INCOMING TELEGRAM

PRG 01 KINGST 02104 11 01 15 1002737 5689 084018 A105610
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ACTION OFFICE LAUR-03
INFO AIA-01 LACO-02 LAOP-03 MPCE-01 MPR-01 MPPB-03 GC-01
GCIA-03 GCIL-01 FM-02 ES-01 RAID-01 CIA-05 OND-02 INCY-05
RFD-01 TELE-01 MAST-01 TACA-03 /041 AD 210

INFO CAT-00 COPY-01 INR-10 CIAE-00 EB-08 ARA-00 L-01
INRE-00 /073 W

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FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC IMMEDIATE 0859

LIMITED OFFICIAL USE SECTION 11 OF 15 KINGSTON 02104

AIDAC

FOR LAC/DR: R. WHELDEN AND R. BURKE; GC/LAC: R. NEIGHAN

E.O. 12356: N/A
SUBJECT: PAAD FOR P & E III SUPPLEMENTAL LOAN, 532-0096

WHEN VIEWED IN THE CONTEXT OF THE INTERNATIONAL ECONOMIC ENVIRONMENT, IT IS OUR JUDGEMENT THAT THE DIRECTION OF MOST CHANGES HAS BEEN CORRECT, AND THE ACHIEVEMENTS, ON BALANCE, POSITIVE.

2. THE MONETARY SYSTEM AND MONETARY POLICY:

- ONE OF THE CONSEQUENCES OF THE SHORTFALL OF FOREIGN EXCHANGE INFLOWS IS THAT, CONSIDERED BY ITSELF, IT RESULTS IN REDUCED EXPANSION OF DOMESTIC MONEY AND CREDIT. THIS IN TURN DIMINISHES THE AVAILABILITY OF FINANCING FOR PUBLIC AND PRIVATE INVESTMENT AND OPERATIONS. THE MONETARY AUTHORITY IS THEN CONFRONTED WITH TWO MECHANICAL OPTIONS. IT CAN INCREASE ITS PURCHASES OF CLAIMS AGAINST JAMAICAN ENTITIES, THEREBY EXPANDING MONEY AND CREDIT TO FILL THE GAP LEFT BY REDUCED INFLOWS OF FOREIGN EXCHANGE. ALTERNATIVELY IT CAN ACCEPT THE LOWER RATE OF EXPANSION ALONG WITH THE ADDITION OF PASSIVE OR ACTIVE MEASURES TO REDUCE CREDIT ALLOCATIONS BELOW PROGRAMMED LEVELS.

- IF THE NET DOMESTIC ASSET TARGETS OF THE RECOVERY PROGRAM ARE ADHERED TO AS BINDING CONSTRAINTS, THE BANK OF JAMAICA HAS LIMITED ABILITY TO SUBSTITUTE DOMESTIC ASSET-BASED MONETARY EXPANSION FOR FOREIGN EXCHANGE-BASED EXPANSION. IN THIS CASE, A SHORTAGE IS CREATED ANALOGOUS TO THE SHORTAGE OF FOREIGN EXCHANGE. A MEANS OF DISCRIMINATING AMONG RIVAL CLAIMANTS MUST BE DEvised.

- IN GENERAL, FOREIGN EXCHANGE-BASED MONETARY EXPANSION IS LIKELY TO BE LESS INFLATIONARY THAN DOMESTIC-ASSET BASED EXPANSION. FOREIGN EXCHANGE REPRESENTS CLAIMS OVER REAL (EXTERNAL) RESOURCES WHEREAS DOMESTIC-ASSET BASED EXPANSION MAY NOT REFLECT A CONCOMITANT EXPANSION OF AVAILABILITY OF REAL RESOURCES. MOREOVER, MONETARY EXPANSION IN GENERAL INCREASES AGGREGATE DEMAND, REGARDLESS OF ITS BASE. INCREASED AGGREGATE DEMAND INCREASES DEMAND FOR IMPORTS AS WELL AS FOR DOMESTIC GOODS. CONSEQUENTLY DOMESTIC ASSET-BASED EXPANSION LEADS ULTIMATELY TO INCREASED IMPORT DEMAND WITHOUT CORRESPONDING INCREASES IN FOREIGN EXCHANGE TO PAY FOR THEM. THE BALANCE OF PAYMENTS, THEREFORE, DETERIORATES FURTHER. THIS IS THE THEORETICAL BASIS OF THE LIMITATION ON CENTRAL BANK ACQUISITION OF NET DOMESTIC ASSETS.

- IN JAMAICA, CONDITIONS DIFFER IN SEVERAL IMPORTANT RESPECTS FROM THOSE ASSUMED IN THE FOREGOING THEORETICAL CONSTRUCTION. THE INFLATIONARY IMPACT OF DOMESTIC CREDIT EXPANSION MAY BE SUBSTANTIALLY MITIGATED BY THE EXISTENCE OF UNEMPLOYED PRODUCTIVE CAPACITY. THE ADVERSE BALANCE OF PAYMENTS IMPACT DEPENDS UPON THE EXISTENCE OF A CHANNEL THROUGH WHICH THE NOTIONAL DEMAND FOR IMPORTS (OR CAPITAL FLIGHT) CAN BE ENACTED. EXCHANGE CONTROLS AND IMPORT RESTRICTIONS RESTRICT ACCESS TO SUCH CHANNELS. IT IS UNLIKELY THAT THE DIFFERENCE BETWEEN ACTUAL CONDITIONS IN JAMAICA AND THE THEORETICAL CONDITIONS ARE SUFFICIENT TO NEGATE THE QUALITATIVE CONCLUSIONS OF THE THEORY. NOR ARE THE JAMAICAN CONDITIONS REPRESENTED AS "GOOD FOR JAMAICA". THE POINT IS SIMPLY THAT THE MAGNITUDE OF THE LONG-TERM ECONOMIC CONSEQUENCES OF A COUNTER-CYCLICAL EXPANSION OF NET DOMESTIC ASSETS THAT EXCEEDS TARGET EXPANSION, MAY BE MODEST. WHAT IS IMPORTANT TO LONG-TERM GROWTH IS FOR THE "EXCESS" MONETARY EXPANSION TO BE RESTRAINED, AND THAT IT NOT OUTLIVE THE CYCLICAL EXIGENCIES THAT INDUCE IT.

- BETWEEN DECEMBER 1981 AND DECEMBER 1982, THE NARROWLY DEFINED MONEY STOCK (DEMAND DEPOSITS PLUS CURRENCY OUTSIDE OF BANKS) INCREASED ONLY 6 PERCENT. THE PROJECTED MARCH 1982 TO MARCH 1983 INCREASE IS 7.4 PERCENT. THE MARCH TO MARCH INCREASE IN THE PREVIOUS YEAR WAS 16.8 PERCENT. USING THIS MEASURE, IT APPEARS THAT MONETARY POLICY WAS NOT ONLY RESTRICTIVE IN 1982 BUT WAS MORE RESTRICTIVE THAN IN THE PREVIOUS YEAR. OTHER MEASURES OF MONEY RAISE DOUBTS AS TO THE ABSOLUTE RESTRICTIVENESS, BUT CONFIRM THAT THE RATE OF EXPANSION DECLINED IN FY 1982/83. RATES FOR FOUR MONETARY AGGREGATES ARE PRESENTED BELOW.

PERCENTAGE INCREASES IN
MEASURES OF "MONEY"
(POINT TO POINT)

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Department of State

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ACTION AID-00

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ACTION OFFICE LADR-03
INFO AALA-01 LACO-02 L.D. 03 PPCE-01 PDPR-01 PPPD-03 GC-01
GCLA-03 GCFL-01 FK 02 ES-01 AAID-01 CIA-05 OHQ-02 TRSY-05
RELO-01 TELE-01 LACA-03 /041 A3 210

INFO OCT-00 COPY-01 CIAE-00 EB-00 ARA-00 SSO-00
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FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC IMMEDIATE 0800

LIMITED OFFICIAL USE SECTION 12 OF 15 KINGSTON 02104

AIDAC

FOR LAC/DR: R. WHELDEN AND R. BURKE; GC/LAC: R. HEIGHAN

E.O. 12356: N/A

SUBJECT: PAAD FOR P & E III SUPPLEMENTAL LGAN, 532-0056

	MARCH 1981	MARCH 1982	JUNE 1980	JUNE 1981
	TO	TO	TO	TO
	MARCH 1982	MARCH 1983	JUNE 1981	JUNE 1982

MONEY (M1)	16.8	7.4	2.6	33.3
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M1 PLUS TIME				
- DEPOSITS (M2)	38.8	23.2		

M2 PLUS SAVINGS				
- DEPOSITS (M3)	28.8	22.9		

TOTAL LIABILITIES TO				
- PVT. SECTOR (M4)	29.8	23.2	17.0	31.5

- JUNE TO JUNE DATA REFLECT THE EXCEPTIONALLY TIGHT MONETARY POLICY OF THE FIRST YEAR OF THE SEAGA ADMINISTRATION, AND THE EXCEPTIONALLY RAPID EXPANSION OF THE FIRST HALF OF 1982. THE TWO SETS OF DATA ALSO REFLECT THE UNCOMMON VOLATILITY OF MONETARY AGGREGATES IN JAMAICA. AT THE END OF SEPTEMBER 1982, FOR EXAMPLE, THE M2 MEASURE WAS 31 PERCENT ABOVE ITS YEAR-AGO LEVEL. BY DECEMBER, IT WAS 21.4 PERCENT ABOVE THE DECEMBER 1981 LEVEL. WHILE THE MONETARY DATA FOR JAMAICA ARE SOMEWHAT CONFUSING AND EVEN CONTRADICTORY, IT NOW APPEARS THAT OVER THE FISCAL YEAR 1982/83, OVER-ALL MONETARY EXPANSION WILL PROVE TO HAVE BEEN SOMEWHAT BELOW THE PREVIOUS YEAR'S EXPANSION, PRIMARILY AS A CONSEQUENCE OF THE DECLINE IN FOREIGN EXCHANGE INFLOWS.

- THE BANK OF JAMAICA'S GROSS AND NET FOREIGN ASSET HOLDINGS DECLINED ABSOLUTELY IN THE FIRST 9 MONTHS OF FISCAL YEAR 1982-83. THUS THE MONETARY EXPANSION THAT OCCURRED IN THIS PERIOD (5.5 PERCENT FOR M1, AND 15.9 PERCENT FOR M2) WAS DOMESTIC ASSET-BASED EXPANSION. GROSS FOREIGN ASSETS FELL FROM 34 PERCENT OF M1 TO 25 PERCENT, AND FROM 20 TO 14 PERCENT OF M2. IN THE SAME PERIOD, BANK OF JAMAICA HOLDINGS OF DEBT OF THE CENTRAL GOVERNMENT INCREASED 28 PERCENT.

- COMMERCIAL BANKS INCREASED THEIR LENDING TO THE CENTRAL GOVERNMENT BY 56 PERCENT OVER THIS SAME 9 MONTH PERIOD, REPRESENTING 61 PERCENT OF TOTAL

DOMESTIC CREDIT EXPANSION. THE BANK OF JAMAICA AND THE COMMERCIAL BANKS COMBINED ACQUIRED AN ADDITIONAL \$687 MILLION IN CENTRAL GOVERNMENT DEBT OVER THIS PERIOD. THIS AMOUNT IS EQUIVALENT TO 34 PERCENT OF TOTAL GOVERNMENT EXPENDITURES, 49 PERCENT OF RECURRENT EXPENDITURES, AND 112 PERCENT OF CAPITAL EXPENDITURES, FOR THE SAME PERIOD.

- IN SPITE OF THE GENEROUS CREDIT SUPPLIED TO THE PUBLIC SECTOR BY THE BANKING SYSTEM, THE PRIVATE SECTOR WAS ALSO ABLE TO GAIN AMPLE CREDIT. ITS DEBT TO COMMERCIAL BANKS ADVANCED 29 PERCENT (\$356 MILLION) BETWEEN MARCH AND DECEMBER. GENERALIZED "CROWDING OUT" OF THE PRIVATE SECTOR, THEREFORE, WAS NOT A PROBLEM IN 1982.

- IT IS CLEAR FROM THE FOREGOING DISCUSSION THAT DOMESTIC CREDIT EXPANSION EXCEEDED GROWTH OF REAL RESOURCE AVAILABILITIES IN 1982. THE PRINCIPAL ADVERSE CONSEQUENCE OF THIS IS THAT IT HAS UNDOUBTEDLY HINDERED THE ATTAINMENT OF BALANCE OF PAYMENTS EQUILIBRIUM. NEVERTHELESS, THERE IS CLEAR EVIDENCE THAT THE BANK OF JAMAICA IS MOVING DELIBERATELY TO RESTRAIN MONETARY GROWTH WITHIN REASONABLE BOUNDS. CONSEQUENTLY IT IS REASONABLE TO CONCLUDE THAT THE RAPID EXPANSION OF LATE SUMMER WAS TRANSITORY. MONETARY POLICY CONTINUES ON THE PATH THAT WAS DESIGNED FOR IT IN THE ECONOMIC RECOVERY PROGRAM. TWO FACTORS WILL PLAY AN IMPORTANT ROLE IN DETERMINING WHETHER IT CAN BE KEPT ON THAT PATH: A REVIVED WORLD-ECONOMY WOULD HELP TO RELIEVE THE INDUCEMENTS TO RESORT TO INFLATIONARY MONETARY MANAGEMENT; AND A SUCCESSFUL EFFORT BY THE GOVERNMENT TO RESTRAIN THE GROWTH OF PUBLIC EXPENDITURES WOULD REDUCE THE PRESSURE ON THE BANK OF JAMAICA TO FINANCE BUDGET DEFICITS.

3. FISCAL POLICY AND MANAGEMENT:

IN THE FIRST YEAR OF THE ECONOMIC RECOVERY PROGRAM THE SEAGA GOVERNMENT MADE REMARKABLE PROGRESS

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Department of State

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TELEGRAM

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ACTION AID-00

ACTION OFFICE LADR 01
INFO ANLA-01 LACO 07 LADP 01 PPCI-01 MPR-01 PMPD-01 GC-01
GCLA-03 GCFL-01 FM-02 ES-01 RAID-01 CIA-05 OHH-02 TRCY-05
RELO-01 TELL 01 MAST-01 LACA-03 /041 A3 210

INFO OCT-00 COPY-01 INR-10 CIAE-00 EB-08 ARA-00 L-03
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FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC IMMEDIATE 0861

LIMITED OFFICIAL USE SECTION 13 OF 15 KINGSTON 02104

AIDAC

FOR LAC/DR: R. WHELDEN AND R. DURKE; GC/LAC: R. HEIGHAN

E.O. 12356: N/A
SUBJECT: PAAD FOR P & E III SUPPLEMENTAL LOAN, 532-0896

TOWARD SOUND AND DISCIPLINED FISCAL MANAGEMENT.
SPECIFICALLY, COMPARING FY 1981/82 WITH FY 1980/81
THE GOVERNMENT:

- (1) INCREASED TAX REVENUE 30 PERCENT
- (2) HELD THE INCREASE IN CURRENT ACCOUNT
EXPENDITURES TO 7 PERCENT
- (3) INCREASED CAPITAL EXPENDITURES 34 PERCENT
- (4) REDUCED THE OVERALL BUDGET DEFICIT FROM
17 PERCENT TO 14 PERCENT OF GDP.

- THUS THE PRIME MINISTER FULLY LIVED UP TO HIS
REPUTATION FOR DISCIPLINED MANAGEMENT.

- THE ECONOMIC RECOVERY PROGRAM PROJECTED AN
ADDITIONAL INCREASE IN TAX REVENUE OF 19 PERCENT FOR
FY 1982/83. CURRENT ACCOUNT AND CAPITAL EXPENDITURES
WERE TO BE HELD TO MODEST INCREASES, RESULTING IN A
FURTHER REDUCTION IN THE OVERALL DEFICIT TO 12.9
PERCENT OF GDP.

- THE DECLINE OF THE BAUXITE/ALUMINA MARKET, HOW-
EVER, REDUCED GOVERNMENT LEVY INCOME \$1160 MILLION
BELOW THE PROJECTED LEVEL, AND \$118 MILLION BELOW
THE 1980/81 LEVEL. IN SPITE OF CONTINUED IMPROVE-
MENT IN TAX COLLECTIONS, TOTAL REVENUES INCREASED
ONLY 3 PERCENT IN NOMINAL TERMS. CURRENT ACCOUNT
EXPENDITURES, WHICH HAD BEEN PROGRAMMED TO RISE
16 PERCENT, WERE HELD TO AN INCREASE OF 13 PERCENT,
AND CAPITAL EXPENDITURES ADVANCED 3 PERCENT. THE
OVERALL DEFICIT INCREASED 9 PERCENT OVER FY 1981/82,
REACHING 13.4 PERCENT OF GDP. IF THE IMF PREFERRED
ACCOUNTING SYSTEM IS USED, THE DEFICIT RISES TO OVER
15 PERCENT OF GDP. THUS WHILE THERE IS SOME DISPUTE
AS TO THE DETAILS, IT IS NEVERTHELESS CLEAR THAT
THE PUBLIC SECTOR DEFICIT WILL INCREASE IN ABSOLUTE
TERMS AND AS A PERCENTAGE OF GDP.

- GDP IS PROJECTED TO INCREASE 8.9 PERCENT IN
NOMINAL TERMS IN FY 1982/83, AND TOTAL GOVERNMENT
EXPENDITURES WILL RISE 9.7 PERCENT, OR MORE. BY
THIS MEASURE, THEREFORE, THE ROLE OF THE GOVERNMENT
IN THE ECONOMY WILL INCREASE, WHEREAS THE ECONOMIC
RECOVERY PROGRAM WAS INTENDED TO REDUCE ITS ROLE.
THIS QUALITATIVE CHANGE IS DISTURBING TO THE THREE
PRINCIPAL FOREIGN ASSISTANCE DONORS, (IMF, IBRD, AID),

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AS IT RUNS COUNTER TO THE GOALS THEY SOUGHT TO SUP-
PORT. EACH IS EMPHASIZING THIS CONCERN IN ITS
DISCUSSIONS WITH THE GOJ.

- AGAIN, AS IN THE CASE OF THE FOREIGN EXCHANGE
SHORTAGE, THE EFFECT (IF NOT THE INTENT) OF PUBLIC
POLICY HAS BEEN FIRST TO SHIELD THE GOVERNMENT FROM
THE SHORT-FALL IN REAL RESOURCE AVAILABILITY.

- WE ARE CONFIDENT THAT POLICY MEASURES COULD HAVE
BEEN EMPLOYED IN A MANNER THAT DISTRIBUTED THE BURDEN
MORE EVENLY BETWEEN THE PUBLIC AND PRIVATE SECTORS.
TO EMPHASIZE THE IMPORTANCE WE ATTACH TO MAKING CHANGES
IN THIS DIRECTION, WE HAVE SUGGESTED CERTAIN SPECIFIC
MEASURES IN THE COURSE OF OUR DISCUSSIONS RELATIVE TO
THE PROPOSED SUPPLEMENT TO P & E III. FOUR OF THESE
MEASURES ARE INCLUDED IN THE CONDITIONS OF THE PRO-
POSED LOAN, AND HAVE BEEN ACCEPTED BY THE GOVERNMENT.
THE FOUR RELEVANT MEASURES ARE:

- (1) DEVELOPMENT OF A SCHEDULE AND AN ACTION
PLAN FOR ACCELERATED DIVESTMENT OF PUBLIC
ENTERPRISES.
- (2) OPENING OF ACTIVITIES OF THE EXTERNAL
MARKETING ORGANIZATIONS AND JAMAICA
COMMODITY TRADING CORPORATION TO
PRIVATE SECTOR COMPETITION.
- (3) PROVISION FOR BROAD PRIVATE SECTOR
CONSULTATION IN CONJUNCTION WITH THE
PROPOSED USAID/GOJ BOARD OF REVENUE
PROJECT.
- (4) CONSOLIDATION AND STREAMLINING OF PUBLIC
SECTOR FUNCTIONS RELATING TO PROMOTION OF
PRIVATE INVESTMENT.

Best Available Document

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Department of State

INCOMING TELEGRAM

PAGE #1 KINGST 02104 14 OF 15 100246Z 8807 004037 A105647
ACTION AID-00

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ACTION OFFICE LADR-03
INFO AALA-01 LACO-02 LADP-03 PPCE-01 PDPK-01 PPPB-03 GC-01
GCLA-03 GCFL-01 FM-02 ES-01 AAID-01 CIA-05 OMB-02 TRSY-05
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INFO OCT-00 COPY-01 INR-10 CIAE-00 EB-00 ARA-00 L-03
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TO SECSTATE WASHDC IMMEDIATE 0062

LIMITED OFFICIAL USE SECTION 14 OF 15 KINGSTON 02104

AIDAG

FOR LAC/DR: R. WHELDEN AND R. BURKE; GC/LAC: R. HEIGHAN

E.O. 12356: N/A
SUBJECT: PAAD FOR P & E III SUPPLEMENTAL LOAN, 532-0096

- ALONG WITH EMPHASIZING THE NEED FOR POLICY CHANGES WE MUST NEVERTHELESS ACKNOWLEDGE THE DIFFICULTY OF TRANSLATING A DESIRE TO REDUCE THE SCOPE OF THE PUBLIC SECTOR IN THE ECONOMY, INTO POSITIVE ACTION. THIS IS DOUBLY DIFFICULT IN A DECLINING ECONOMY. THERE IS A CORE OF PUBLIC SECTOR CAPITAL INVESTMENT THAT IS A NECESSARY CONDITION TO ECONOMIC PROGRESS. ELECTRICITY AND WATER FACILITIES ARE EXAMPLES. IN THE CURRENT ACCOUNT, WAGES REPRESENT 43 PERCENT OF TOTAL EXPENDITURES (FY 1982/83). THE WAGE BILL CAN BE CUT, AND INDEED THERE ARE PLANS TO REDUCE ITS WEIGHT IN TOTAL EXPENDITURES. OVER VERY SHORT PERIODS, THIS COMPONENT IS QUITE INTRANSIGENT. IN FACT, RECURRENT EXPENDITURES AS A CLASS ARE EXTREMELY DIFFICULT TO CUT SIGNIFICANTLY OVER SHORT PERIODS OF TIME.

- IT IS THE MISSION'S VIEW THAT THE GOVERNMENT OF JAMAICA REMAINS COMMITTED TO THE PRINCIPLE OF FISCAL DISCIPLINE. THIS IS INDICATED IN THE GOVERNMENT'S RECENT THREE YEAR PROJECTION FOR THE FISCAL ACCOUNTS. THE GOVERNMENT PROPOSES TO REDUCE THE RATIO OF THE OVERALL BUDGET DEFICIT TO GDP BY ONE PERCENTAGE POINT IN FY 1983/84 AND BY AN ADDITIONAL ONE AND ONE-HALF PERCENTAGE POINTS IN EACH OF THE FOLLOWING YEARS. THESE REDUCTIONS ARE BELOW THOSE RECOMMENDED BY THE IMF, AND THERE IS ROOM FOR DISPUTE AS TO THE APPROPRIATE MAGNITUDE. NEVERTHELESS, THE GOVERNMENT IS SERIOUSLY SEEKING WAYS TO REDUCE THE ROLE AND SCOPE OF GOVERNMENT IN THE ECONOMY. AS LONG AS THIS COMMITMENT REMAINS, THE GOALS OF THE ORIGINAL 3 YEAR ECONOMIC RECOVERY PROGRAM ARE INTACT. IT IS WITHIN THE CONTEXT OF THE PURSUIT OF THESE GOALS THAT USAID/JAMAICA BELIEVES THAT U.S. SUPPORT AND ASSISTANCE CAN BE EFFECTIVE, AND IS WARRANTED.

III. CONDITIONS AND COVENANTS:

- CONDITIONS PRECEDENT: (1) TO EMPHASIZE THE IMPORTANCE WE ATTACH TO THE CHANGES SOUGHT THROUGH THE GOJ'S PROGRAMS WITH THE IMF AND THE IBRD, WE PROPOSE TO CONTINUE, IN THIS LOAN, TO MAKE SUBSTANTIAL COMPLIANCE WITH THE CONDITIONS OF THE EFF AND SAL PROGRAMS A CONDITION PRECEDENT TO DISBURSEMENT.

- (2) IN ADDITION, WE HAVE SOUGHT AND RECEIVED A COMMITMENT FROM THE GOVERNMENT TO AGREE TO IN-

- VESTIGATE AND, IF POSSIBLE, TO IMPLEMENT WITHIN 60 DAYS, A POLICY OF PERMITTING LOCAL COMMERCIAL BANKS TO ACCEPT FOREIGN EXCHANGE DENOMINATED TIME DEPOSITS. THE PURPOSE OF THIS MEASURE IS TO PROVIDE JAMAICANS WHO "HEDGE" BY HOLDING FOREIGN EXCHANGE, A MEANS OF SATISFYING THIS PREFERENCE INSIDE OF JAMAICA. IF SUCCESSFUL, THIS MECHANISM CAN ATTRACT ADDITIONAL FOREIGN EXCHANGE INTO THE BANKING SYSTEM, AND STEADY CAPITAL OUTFLOWS. IF UNSUCCESSFUL, NOTHING WILL HAPPEN, AND THERE IS NO COST INVOLVED. WE EXPECT IT TO ENJOY SOME DEGREE OF SUCCESS.

- COVENANTS: (1) TO REVITALIZE THE DIVESTMENT PROCESS, WE PROPOSE A DATED COVENANT REQUIRING THE GOJ TO PRODUCE A PLAN AND A SCHEDULE FOR DIVESTMENT OF PUBLICLY OWNED ENTERPRISES, MAKING THE ENTERPRISE TO BE DIVESTED, THE METHOD OF DIVESTMENT (SALE OR LEASE), AND THE MECHANISM FOR DIVESTMENT (PUBLIC AUCTION, SOLICITATION OF PROPOSALS, DIVESTMENT AGENT, ETC.). THE SCHEDULE WILL BE TENTATIVE, BUT PERFORMANCE PURSUANT TO THIS COVENANT WILL BE MONITORED CLOSELY. THIS ACCELERATION OF DIVESTMENT SHOULD SERVE TWO PURPOSES. IT CAN RELIEVE THE PUBLIC SECTOR OF A DRAIN ON ITS BUDGET IN THE CASES OF UNPROFITABLE ENTERPRISES. IT SHOULD ALSO ATTRACT FOREIGN INVESTMENT BY A VIGOROUS EXTERNAL CAMPAIGN IN CONJUNCTION WITH THE DIVESTMENT PROGRAM. (2) A TIMED COVENANT WITH RESPECT TO THE INTRODUCTION OF PRIVATE COMPETITION IN THE AREAS OF ACTIVITY OF THE GOVERNMENT CONTROLLED EXTERNAL MARKETING ORGANIZATIONS AND THE GOVERNMENT'S JAMAICA COMMODITY TRADING CORPORATION, IS INTENDED TO REINFORCE WORLD BANK CONDITIONS TOWARD THE SAME END. IT IS INTENDED TO REDOUND TO THE ADVANTAGE OF THE PRIVATE SECTOR THROUGH MORE VIGOROUS COMPETITION FOR THE GOODS AND SERVICES THEY PRODUCE.

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Department of State

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ACTION OFFICE LADR-03
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GCLA-03 GCFL-01 FM-02 ES-01 AAID-01 CIA-05 OMB-02 TRSY-05
RELO-01 TELE-01 MAST-01 LACA-03 /041 A3 210
INFO OCT-00 COPY-01 INR-10 CIAE-00 EB-08 ARA-00 L-03
INRE-00 /073 W

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TO SECSTATE WASHDC IMMEDIATE 0863

LIMITED OFFICIAL USE SECTION 15 OF 15 KINGSTON 02104

AIDAC

FOR LAC/DR: R. WHELDEN AND R. BURKE; GC/LAC: R. MEIGHAN

E. O. 12356: N/A
SUBJECT: PAAD FOR P & E III SUPPLEMENTAL LOAN, 532-0096

- (3) STREAMLINING OF THE INVESTMENT PROMOTION OPERATIONS OF THE PUBLIC SECTOR IS A LONG-STANDING TARGET OF IBRD AND AID. THIS COVENANT REQUIRES ACTION BASED ON THE RECOMMENDATIONS OF AN IBRD STUDY TEAM WHOSE RECOMMENDATIONS WILL BE FORTHCOMING IN THE NEXT MONTH.

IV. RECOMMENDATION: THE USG TEAM IN JAMAICA RECOMMEND APPROVAL OF THE GOJ'S URGENT REQUEST FOR ESP ASSISTANCE. THE GOJ HAS NOT MOVED AT THE PACE OR WITH THE VIGOR WE CONSIDER OPTIMAL TO PROMOTE ITS GOAL OF PRIVATE SECTOR-LED, EXPORT ORIENTED GROWTH. THE GOVERNMENT MAY ALSO FAIL THE MARCH 31 TEST UNDER THE EFF PROGRAM. IN SPITE OF THIS, WE ARE CONVINCED THAT THE ECONOMIC RECOVERY PROGRAM AND ITS GOALS ARE STILL FIRMLY HELD PRIORITIES OF THE GOJ. THE GOVERNMENT HAS BEEN BESET BY A HOST OF SERIOUS DIFFICULTIES RELATED TO SHORTFALLS IN BAUXITE AND ALUMINA EARNINGS OF FOREIGN EXCHANGE. WHILE PROGRESS HAS BEEN SLOWED, IN MANY CASES MORE THAN WAS NECESSARY, BY RETREATS FROM THE PRIVATE SECTOR COMMITMENT, THE PROGRESS HAS, ON BALANCE, BEEN POSITIVE.

RESPONSIVENESS OF THE GOJ TO OUR INITIATIVES HAS IMPROVED MARKEDLY IN RECENT MONTHS. CONTINUED PROGRESS IN POLICY REFORM WILL CONTINUE TO BE DIFFICULT, PERHAPS MORE SO AS THE ECONOMY BEGINS TO RECOVER AND AS ELECTIONS DRAW CLOSER. AT THE MOMENT, HOWEVER, THE GOVERNMENT FACES THE MOST SERIOUS FINANCIAL CRISIS OF ITS TENURE. OUR CREDIBILITY AS FRIENDLY, CONSTRUCTIVE, CRITICS WILL BE FAR GREATER IF WE PROFFER SUPPORT THROUGH THE CRISIS THAN IF WE WITHHOLD ASSISTANCE AND HENCE INTENSIFY THE CRISIS. FINALLY WE ARE CONVINCED THAT THE ASSISTANCE THAT HAS BEEN SUPPLIED, AND THAT BEING PROPOSED, HAS AND WILL CONTRIBUTE POSITIVELY TO THE GOALS WE HAVE ENDORSED. FOR THESE REASONS, WE URGE THAT THE REQUEST BE GIVEN THE MOST EXPEDITIOUS TREATMENT THAT IS POSSIBLE, AND THAT IT BE APPROVED FOR IMMEDIATE DISBURSEMENT.

(DRAFTED: A/ECON: SSKOGSTAD; APPROVED; DIRECTOR: LPREADE)
HEWITT

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