



# Government of Jamaica



## Jamaica's Economic Programme

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Confidential Briefing  
January 2010

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***Strictly Private and Confidential***



## Representatives

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- **Rt. Hon. Bruce Golding**
  - *Prime Minister*
- **Hon. Audley Shaw**
  - *Minister of Finance and the Public Service*
- **Brian Wynter**
  - *Governor - Bank of Jamaica*
- **Dr. Wesley Hughes**
  - *Financial Secretary*
- **Darlene Morrison**
  - *Deputy Financial Secretary*
- **Pamella McLaren**
  - *Senior Director Debt Management – Ministry of Finance and the Public Service*



## Agenda

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- **Assessment and Challenges**
- **Economic Programme**
- **Multilateral Financial Support**
- **The Transaction: Jamaica Debt Exchange (“JDX”)**



# Government of Jamaica



## Assessment and Challenges

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## Assessment and Challenges

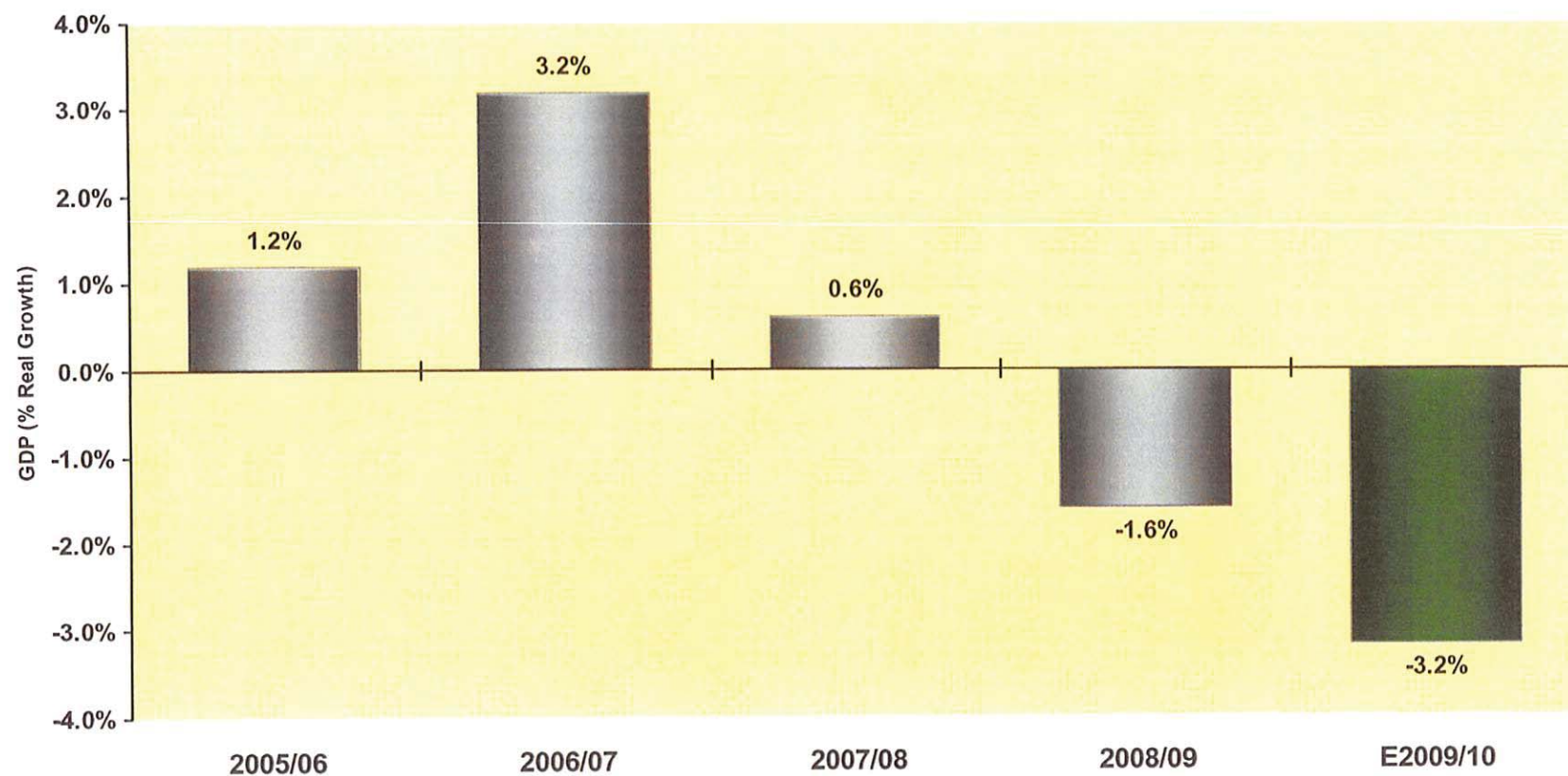
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- **Economic growth below potential**
- **High sensitivity to global economic and financial market shocks**
- **Debt/GDP ratio high and rising**
- **Interest cost crowding out public investment & services**
- **Excessive nominal and real local interest rates**
- **Recurring fiscal slippage and rigid expenditures**





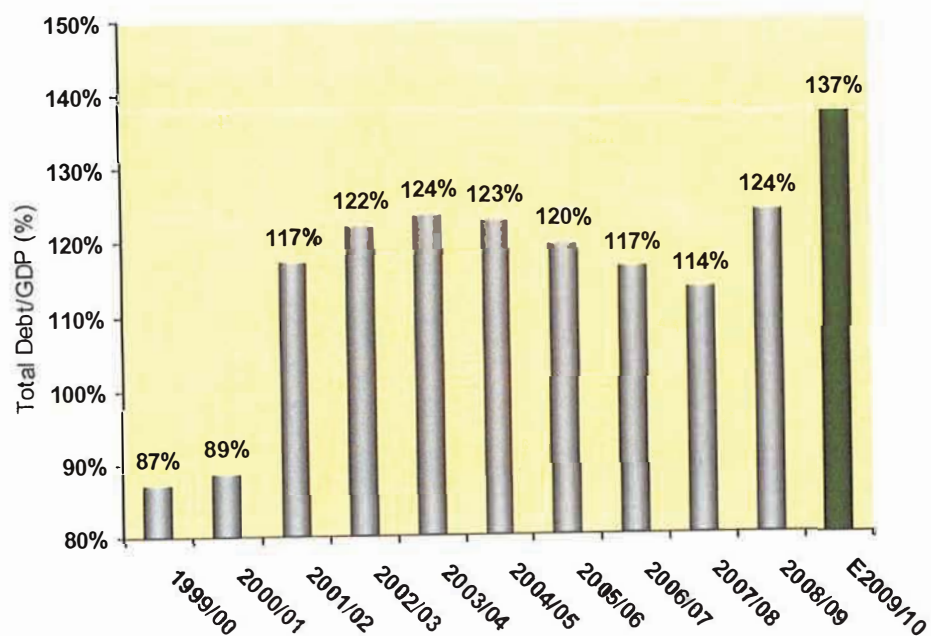
## Real GDP



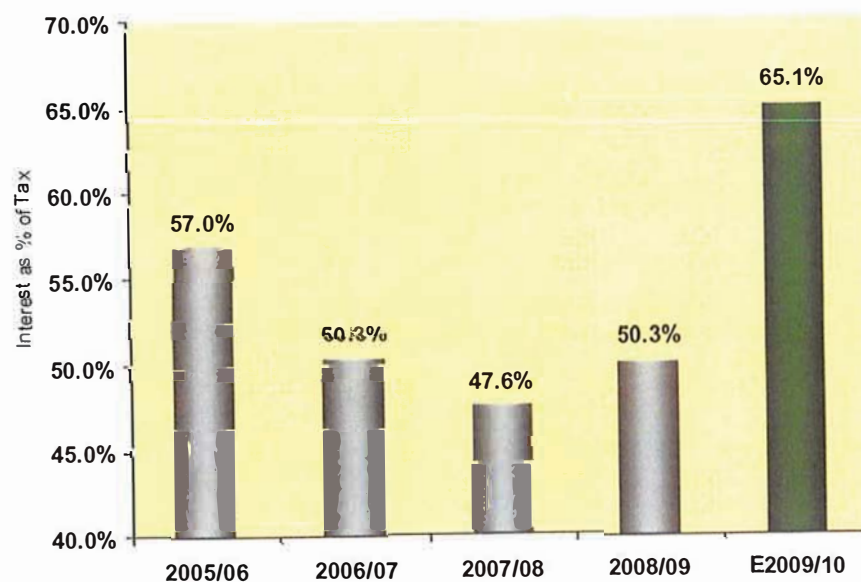


## High Levels of Debt

Debt / GDP



Interest as % of Tax Revenues

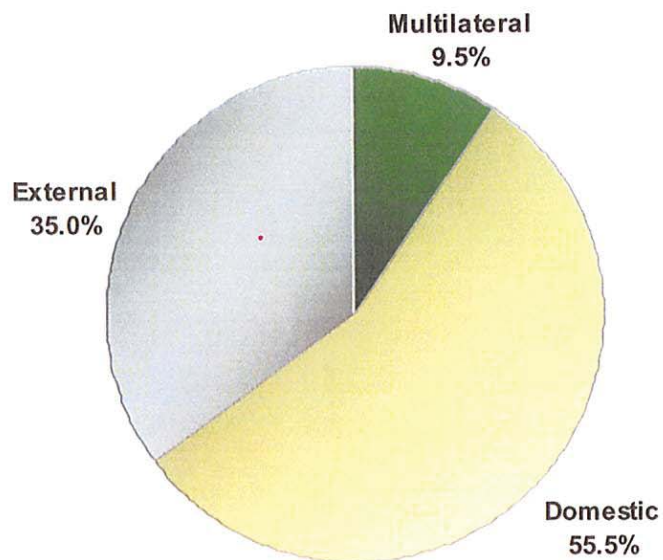




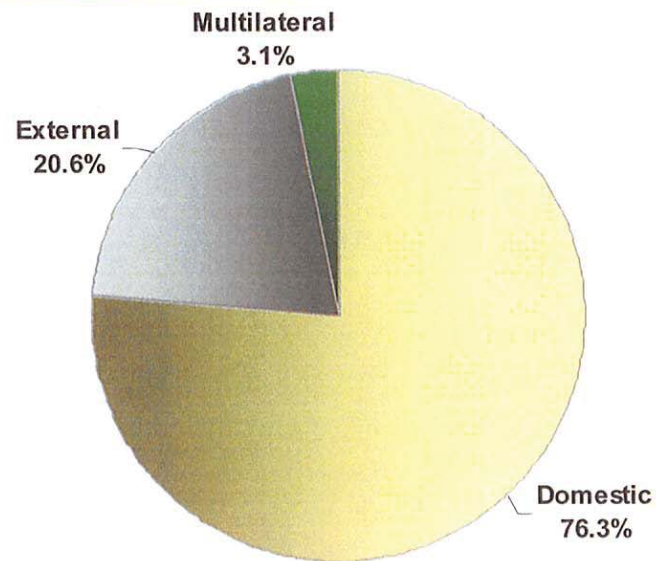
## Assessment & Challenges

- **Most market debt is held domestically**
  - Total debt = J\$1.3 trillion
    - 100% of Domestic debt
    - Significant % of Global Bonds
  - Domestic Debt is
    - 76.3% of all Interest Costs
    - Most volatile
    - J\$ 288 billion (27% of GDP) maturing in 24 months

Debt Portfolio



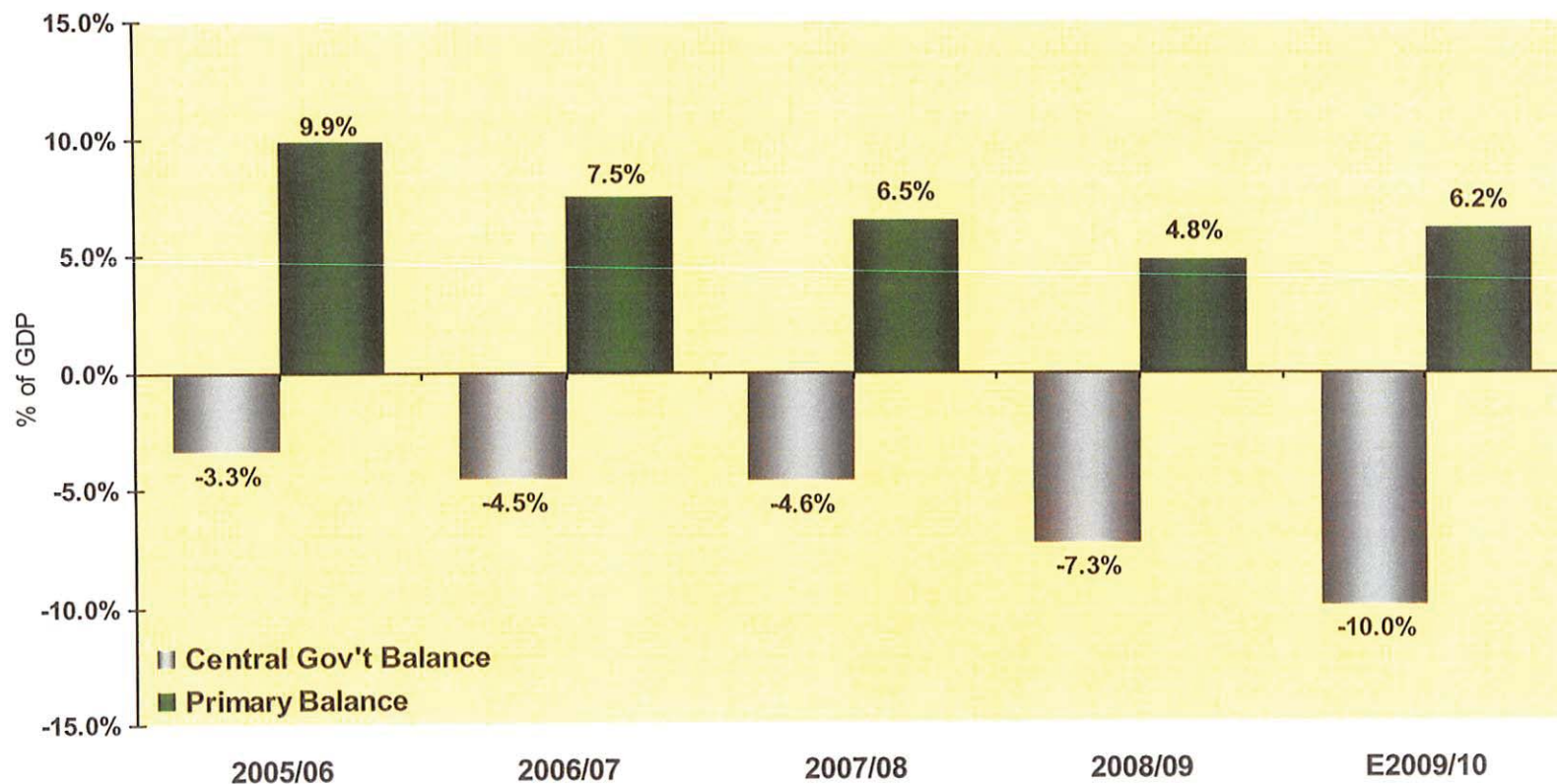
Interest Expense Breakdown







## Fiscal Performance





# **Government of Jamaica**



## **Economic Programme**

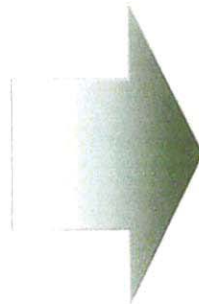
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## Economic Programme

### Objective

- Reduce public debt ratio
- Fiscal discipline and accountability
- Raise real GDP growth rate



### Pillars

- Fiscal consolidation strategy
- Comprehensive domestic debt
- Reforms to strengthen the financial system



## Fiscal Reform

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- The government is committed to reducing the overall public sector deficit from 13.5% of GDP to new balance in FY2013/14 through a combination of corrective revenue and spending measures
- Revenues:
  - Increase in General Consumption Tax
  - Introduction of General Consumption Tax on Electricity
  - Income tax increase for persons earning above J\$5 million and J\$10 million
  - Increase of Fuel Tax
- Expenditures:
  - Public wage and salary increase freeze through FY2011/12
  - Non-debt recurrent expenditure will be reduced in real terms for FY2010/11
  - Social safety net will be expanded





## Structural Reform

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- **Efficiency Gains & Rationalizations**

- A committee appointed by the Prime Minister is reviewing the existing structure of the public sector and will present recommendations to improve its efficiency in September 2010
- Divesting of publicly-owned commercial entities to reduce the burden on the Public Sector
  - Divestitures/Closures
  - Reduce head count
- Merging of entities to create efficiency
- Publicly-owned entities include: Air Jamaica, Petrojam, Sugar Company of Jamaica Holding and Jamaica Urban Transit Company

- **Tax Administration**

- The government will continue the comprehensive reform of tax administration

- **Fiscal Responsibility**

- The government will pursue enactment of a Fiscal Responsibility Framework (FRF) to ensure prudent fiscal management is achieved

- **Central Treasury Management System**

- CTM will consolidate responsibility for treasury management in one agency and establish a Treasury Single Account to enhance cash management





## Monetary Policy & Financial System

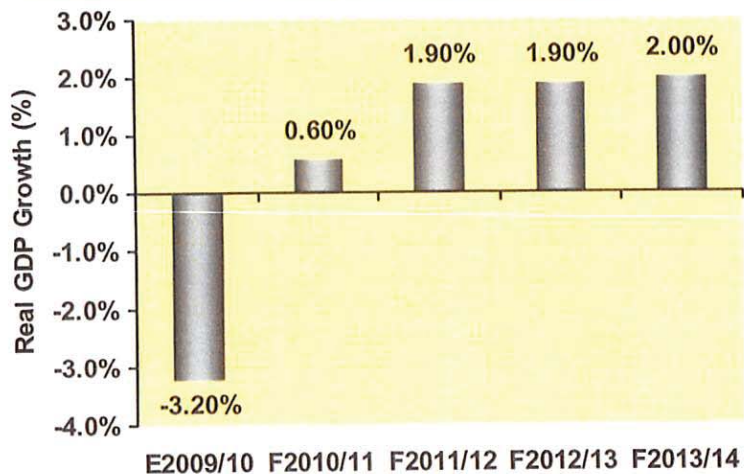
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- Reduce Inflation
- Flexible Exchange Rate
  - The BoJ will continue to manage the monetary policy within the framework of a managed floating exchange rate regime
- Strengthen the financial system
  - Financial System Support Fund (FSF)
  - More effective supervision of the financial conglomerates
  - More stringent capitalization requirements

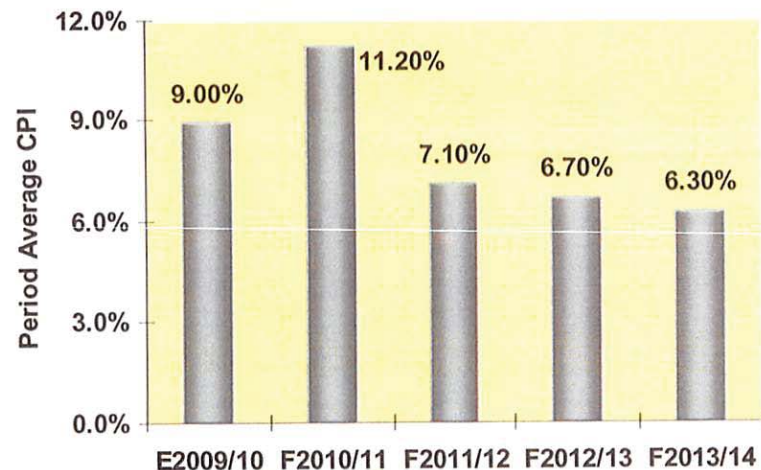


## Macro Framework

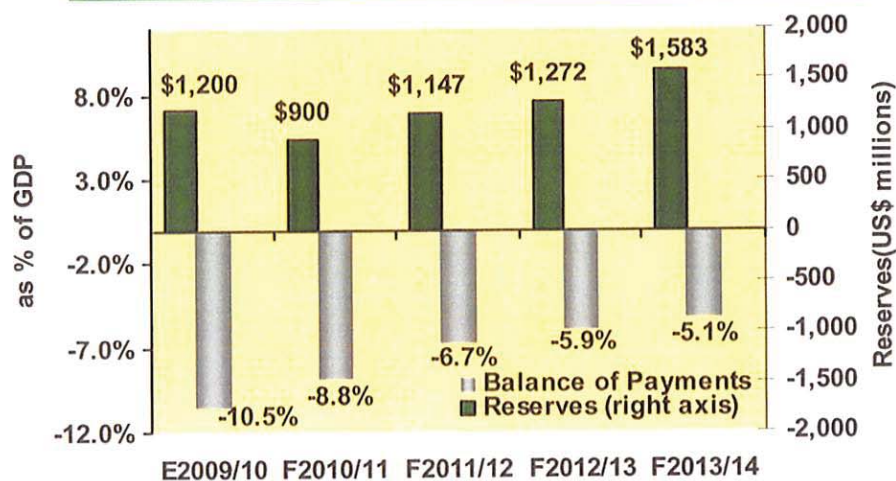
### GDP Growth



### Inflation



### BOP and Reserves





# Government of Jamaica



## Multilateral Financial Support

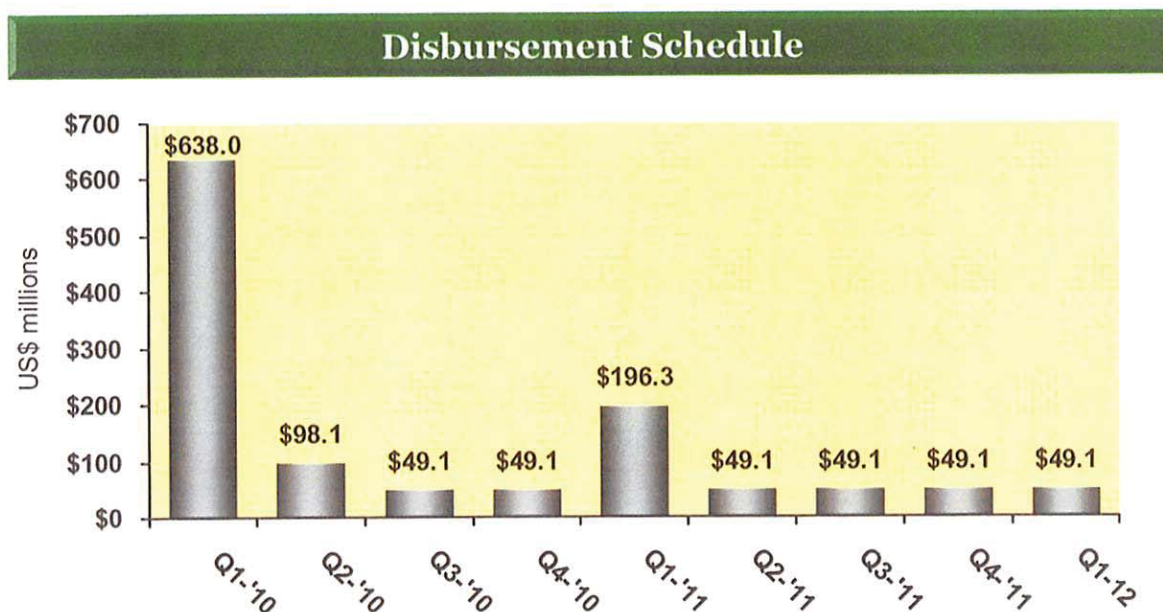
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## IMF Stand-by Program

- Borrower: Bank of Jamaica
- Amount: \$1.25 billion
- Tenor: 26 months
- Quarterly Quantitative Targets
  - Fiscal deficit
  - Public Sector overall deficit
  - Debt (direct and guaranteed)
  - Net International Reserves
  - Net Domestic Assets
- Front Loaded Disbursement Schedule





# Financial System Support Fund (FSF)

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- A New Repo / Liquidity Program
- Available to financial institutions participating with 100% of their Old Bonds
- Only the New Bonds are eligible collateral
- 100% of nominal value (0% hair cut)
- No mark to market
- Also available to financial institutions not regulated by Bank of Jamaica
- Funded by Ministry of Finance and administrated by Bank of Jamaica





# Government of Jamaica



The Transaction: Jamaica Debt Exchange (“JDX”)

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## Objectives of the Transaction

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- **Improve Maturity Profile**
  - Extend maturities to significantly reduce refinancing requirements during period of adjustment
  - Maintain sufficient reserves of external liquidity to help keep rates low and to manage through any future external shocks.
- **Achieve substantial, but balanced, cost savings**
  - Pricing set to allow depositary institutions to make a positive gross margin versus deposits typically below 1-Month BoJ repo rate, currently at 10.5%
  - Pricing is set at the low end of rates that have prevailed over the last few years for fixed rate issuance, and therefore within market norms.
  - The reduction of rates is concurrent with the substantial de-risking through the extraordinary inflow of multilateral support (20% of GDP) and Economic Programme



## Objectives of the Transaction

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- Ensure Banking system stability
  - No reduction in par claim
  - Positive real return versus the BoJ 1-Month repo rate
  - Financial System Support Fund (FSF) for New Bonds
- Obtain approximately 100% participation rate
  - Fair and equitable contribution from all segments of the investing community
  - Mechanisms to assure no free riders who would seek to earn excess profit or competitive advantage by holding on to very high coupon bonds\*

\* All bonds are currently callable at par pursuant to the original documentation of the eligible bonds. The Government of Jamaica can call any stub of bonds remaining after the transaction, and effected holders would then need to reinvest at then prevailing (lower) market rates.



## Summary

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- The Offer covers all domestic marketable debt
  - Excludes: Treasury Bills and external bonds
- No reduction in principal amount
- Par for par exchange
- Reduction in interest rates
- Maturity Extension
- New Instruments
  - Benchmark liquidity
  - CPI-linked Bonds
  - Fixed rate non-callable bonds
  - USD Bonds payable in USD





## Final Instrument Design

- **Lower initial average yield of J\$ instruments to near 12% (FR and VR instruments initial fixed rate)**
- **Lower USD fixed rates in the 7% range.**
- **Minimize initial variable exposure through temporary fixing of all VR instruments for 3,6 or 12 months**
- **Allocation rules to maximize maturity extension of portfolio**
  - Bonds exchanged only for new bonds or packages with longer average maturity
  - Respect existing priority of repayment
- **Allocation rules to maximize switch to fixed rate and not increase USD exposure:**
  - FR can only switch to FR
  - USD can only switch to USD
  - VR can switch to VR, FR, or CPI-Indexed
- **Cap and Staggered Maturity Rules to avoid maturity peaks:**
  - Allocation of “FR 3M, 6M, 1Y, 2Y, 3Y” & “VR 1.5Y, 2.5Y, 3.5Y” as “packages” only to allow spreading of maturity peaks of short bonds.
  - CPI bond participation above J\$60 BLN allocated to 17 – year VR
  - Excess participation in FR 4Y, 6Y, 9Y, 14Y allow instruments to be split in 3 parts
  - Excess participation in VR 7Y, 8Y, 10Y, 16Y, 22Y allow instruments to be split in 3 parts





## Summary Term Sheet

Settlement Date	<ul style="list-style-type: none"><li>February 16, 2009</li></ul>
Eligible bonds:	<ul style="list-style-type: none"><li>Approximately 700 bn j-dollar local law fixed rate (fr), variable rate (vr), and usd bonds (usd). Marketable Bonds issued prior to December 31, 2009.</li></ul>
Transaction Type:	<ul style="list-style-type: none"><li>par for par exchange offer of old securities for New Securities. Each holder of 100 old bonds will receive 100 of new bonds + cash payment of accrued and unpaid interest</li></ul>
New Bonds:	<ul style="list-style-type: none"><li>23 new benchmark bonds; 9 fixed rate bonds; 9 variable rate; 3 USD bonds, and 2 cpi linked bonds</li></ul>
Pricing	<ul style="list-style-type: none"><li>New J\$ bonds priced in the range of 12% vs current BoJ 1 month repo rate of 10.5% (vs current average rate of about 19%).</li><li>USD bonds priced near 7% (vs current average rate of over 9%).</li></ul>
Allocation Rules:	<ul style="list-style-type: none"><li>all exchanges will be from shorter dated bonds to longer dated bonds</li><li>Fixed Rate only to Fixed Rate</li><li>USD only to USD</li><li>Variable Rate to Variable Rate, Fixed Rate, or CPI-indexed</li></ul>
Target participation:	<ul style="list-style-type: none"><li>90% - 100%; including 100% of bonds maturing within two years and a 100% of fixed rate bonds. Acceptance conditional on Government approval of net cost savings.</li></ul>



## New Benchmark Bonds

### Fixed Rate

#### Short Term Package

3 Month Non-Call Life  
6 Months Non-Call Life  
1 – Year Non-Call Life  
2 – Year Non-Call Life  
3 – Year Non-Call Life  
4 – Year Non-Call Life  
6 – Year Non-Call Life  
9 – Year Non-Call Life  
14- Year Non-Call Life

#### CPI-Linked Fixed Rate

12 – Year Non-Call Life  
20 – Year Non-Call Life

### Variable Rate

#### Medium Term Package

##### 1-Month Reset/Pay

1.5 – Year Callable (1)  
2.5 – Year Callable (1)  
3.5 – Year Callable (1)

##### 3-Month Reset/Pay

5 - Year Callable after 3.5Y (2)  
7 - Year Callable after 5Y (2)  
8 - Year Callable after 7Y (2)  
10 – Year Callable after 8Y (3)  
17 – Year Callable after 10Y (3)  
22 – Year Callable after 17Y (3)

(1) Initial fixed term of 3 months  
(2) Initial fixed term of 6 months  
(3) Initial fixed term of 12 months

### USD Fixed Rate

3 – Year Non-Call Life  
4 – Year Non-Call Life  
6 – Year Non-Call Life





## Allocation Rules: Old Fixed Rate Notes

Eligible FR Notes into New FR Notes	Short FR Package*	3Y Fixed	4Y Fixed	6Y Fixed	9Y Fixed	14Y Fixed
2/17/2010 - 12/31/2010	X	X	X	X	X	
12/31/2010 – 6/30/2011		X	X	X	X	
6/30/2011 – 12/31/2012			X	X	X	
12/31/2012 – 12/31/2014				X	X	
12/31/2014 – 12/31/2017					X	
After: 12/31/2017						X

\* Short package 20% Each: 3M, 6M, 1Y, 2Y, 3Y Fixed Rate Notes



## Allocation Rules: Old USD Notes

Eligible USD Notes into New USD Notes	50% USD 3Y and 50% USD 4Y	USD 6Y
2/17/2010 – 12/31/2011	X	X
After 12/31/2011		X





## Allocation Rules: Old VR Notes

Eligible VR Notes in FR Notes	Short FR Package*	3Y Fixed	4Y Fixed	6Y Fixed	9Y Fixed	14Y Fixed
2/17/2010 - 12/31/2010	X	X	X	X	X	X
12/31/2010 - 6/30/2011		X	X	X	X	X
6/30/2011 - 12/31/2012			X	X	X	X
12/31/2012 - 12/31/2014				X	X	X
12/31/2014 - 12/31/2017					X	X
After: 12/31/2017						X

Eligible VR Notes into New CPI Notes	CPI 12Y	CPI 20Y
2/17/2010 - 12/31/2020	X	X
12/31/2020 and after		X

Eligible VR Notes into New VR Notes	Med VR Package*	5Y VR	7Y VR	8Y VR	10Y VR	17Y VR	22Y VR
2/17/2010 - 12/31/2010	X	X	X	X	X	X	X
12/31/2010 - 12/31/2011		X	X	X	X	X	X
12/31/2011 - 12/31/2013			X	X	X	X	X
12/31/2013 - 12/31/2015				X	X	X	X
12/31/2015 - 12/31/2017					X	X	X
12/31/2017 - 12/31/2021						X	X
12/31/2021 - 12/31/2032							X

\* Medium VR package Each: 30%: 1.5Y, 40%: 2.5Y and 30%:3.5Y Variable Rate Notes





## Cap Provisions

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- CPI Cap: Submission over J\$ 60 BLN will be allocated pro-rata to 17-year VR
- Following FR bonds can be split if over J\$50 BLN size:
  - 4Y FR can be split into 3.5Y, 4.0Y, and 4.5Y FR at same coupon
  - 6Y FR can be split into 5.5Y, 6.0Y, and 6.5Y FR at same coupon
  - 9Y FR can be split into 8.5Y, 9.0Y, and 9.5Y FR at same coupon
  - 14Y FR can be split into 13.0Y, 14.0Y and 15.0Y FR at the same coupon
- Following VR bonds can be split if over J\$50 BLN size:
  - 7Y VR can be split into 6.5Y, 7.0Y, and 7.5Y VR at same margin
  - 8Y VR can be split into 7.5Y, 8.0Y and 8.5Y VR at same margin
  - 10Y VR can be split into 9.5Y, 10.0Y, and 10.5Y VR at same margin
  - 17Y VR can be split into 16.0Y, 17.0Y and 18.0Y VR at the same margin
  - 22Y VR can be split into 21.0Y, 22.0Y and 23.0Y VR at the same margin

\*Note all splits on 30%, 40% and 30% basis



## Pricing

### Fixed Rate

Maturity	Yield
3 Month	11.00%
6 Month	11.25%
1 Year	11.75%
2 Year	12.00%
3 Year	12.25%
4 Year	12.50%
6 Year	12.625%
9 Year	12.75%
14 Year	12.875%

### Variable Rate

Maturity	Margin	Index / Pay	1 Year Fixed
1.5 Year	1.0%	1 Month	11.75%
2.5 Year	1.0%	1 Month	11.75%
3.5 Year	1.0%	1 Month	11.75%
5 Year	1.25%	3 Month	11.75%
7 Year	1.375%	3 Month	11.75%
8 Year	1.375%	3 Month	11.75%
10 Year	1.50%	3 Month	11.75%
16 Year	1.50%	3 Month	11.75%
22 Year	1.50%	3 Month	11.75%

*Reference Rate: BoJ 1- Month Rate of 10.5%*

### USD

Maturity	Yield
3 Year	6.75%
4 Year	7.00%
6 Year	7.25%

### CPI

Maturity	Real Rate
12 Year	2% step to 4.00%
20 Year	2% step to 4.25%



## Summary of Transaction Impact

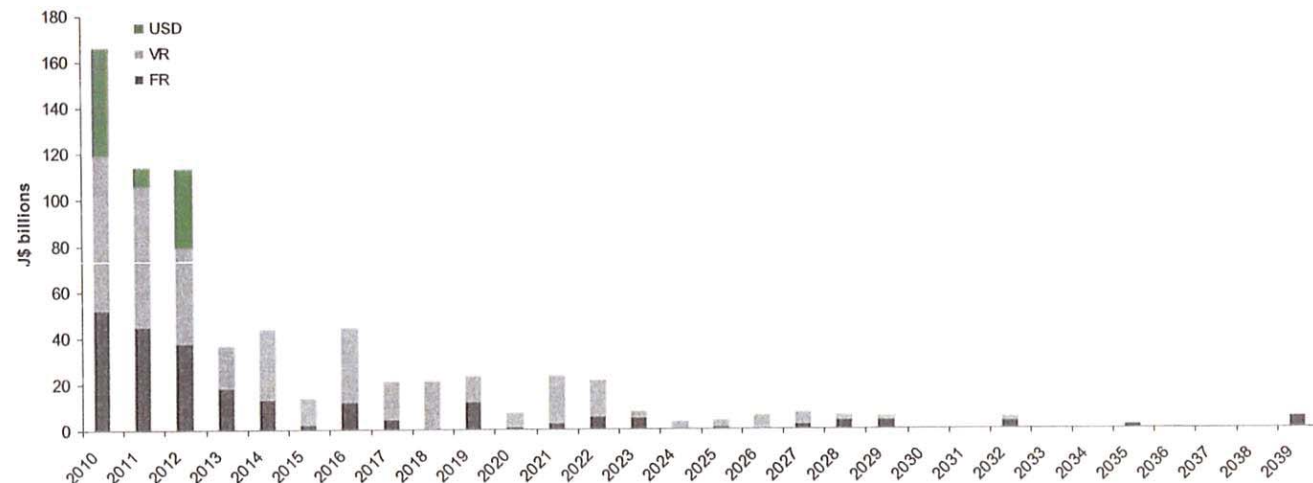
Type	Eligible Amount J\$ bn	Avg. Coupon Before	Avg. Coupon After	Coupon Reduction	Avg. Maturity Before (Years)	Avg. Maturity After (Years)	Interest Before J\$ bn	Interest After J\$ bn	Savings J\$bn
FR	234.9	18.1%	12.4%	-5.7%	5.1	6.0	42.5	29.1	13.4
VR	375.9	19.0%	12.1%	6.9%	5.3	9.5	71.6	44.2	27.4
USD	90.6	9.2%	7.0%	-2.2%	1.4	4.5	8.3	6.4	2.0
Total	701.4	17.5%	11.4%	-6.1%	4.7	7.0 + 2.3 yrs	122.5	79.7	42.8





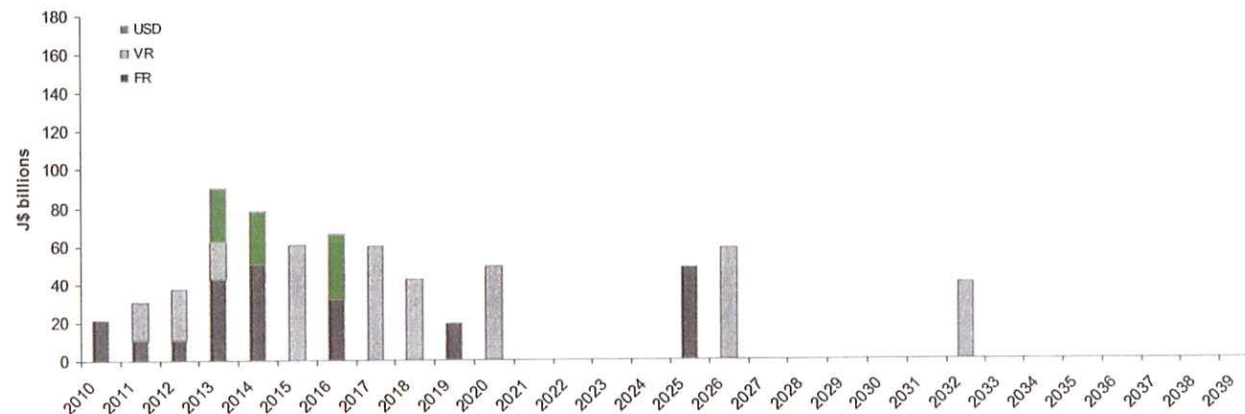
## Pro-forma Impact of Exchange Offer

Before Transaction



**Assuming all holders elect shortest available option of same instrument type**

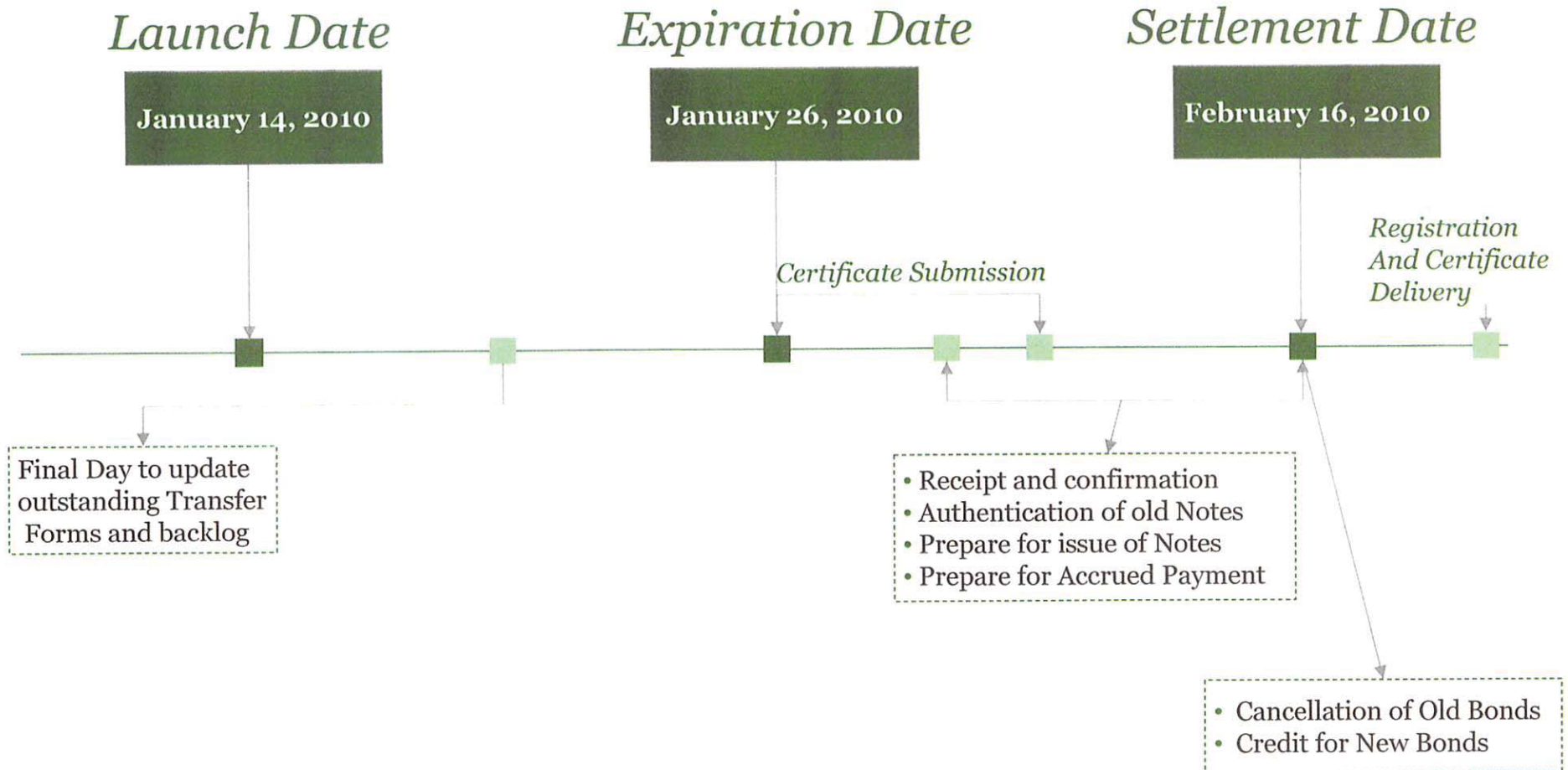
After Transaction





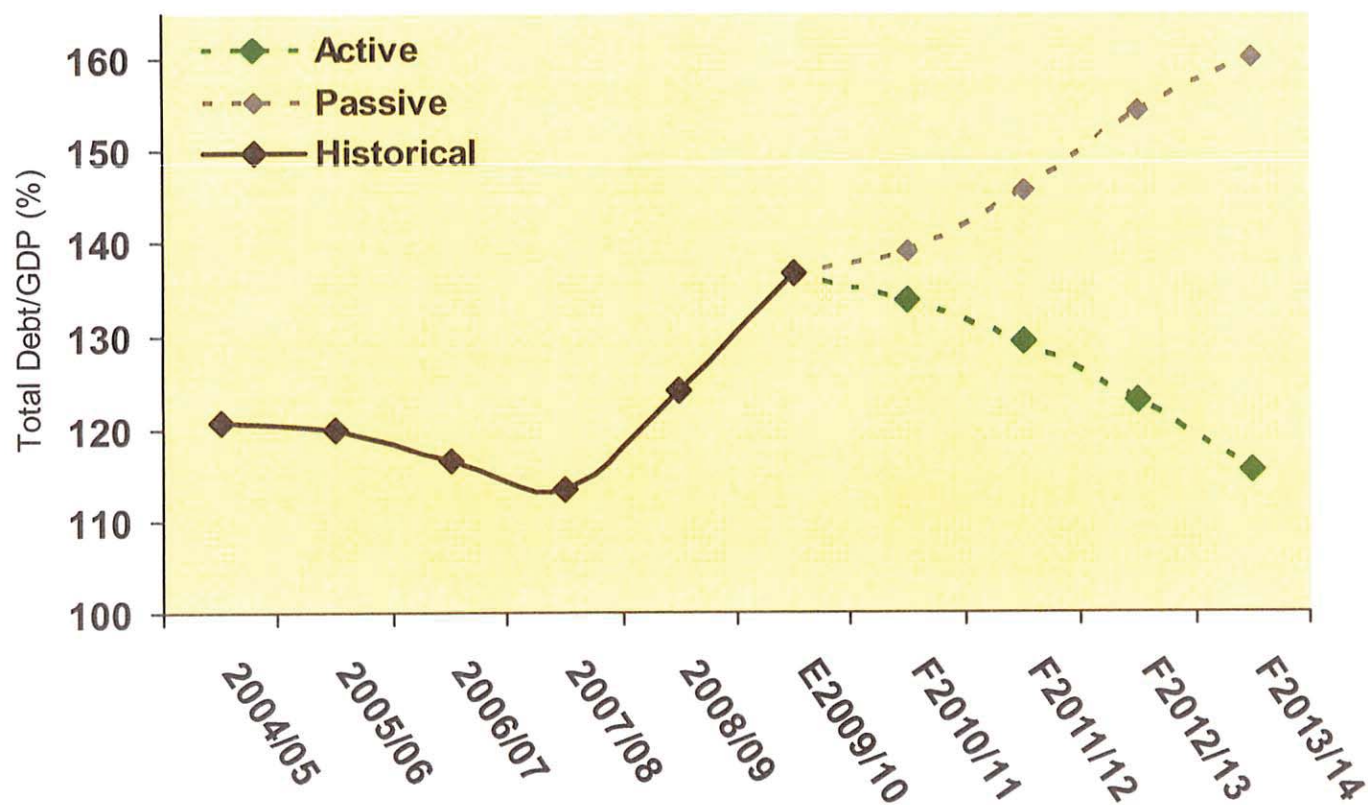


# Transaction Processing Timeline





## Debt Dynamics at a Fork in the Road



Source: IMF



## Summary

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## Data Websites

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Ministry of Finance and the Public Service

[www.mof.gov.jm](http://www.mof.gov.jm)

Bank of Jamaica

[www.boj.org.jm](http://www.boj.org.jm)

Planning Institute of Jamaica

[www.pioj.gov.jm](http://www.pioj.gov.jm)

Statistical Institute of Jamaica

[www.statinja.com](http://www.statinja.com)





# Government of Jamaica



Additional Slides

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## Key Benefits of the Jamaica Debt Exchange

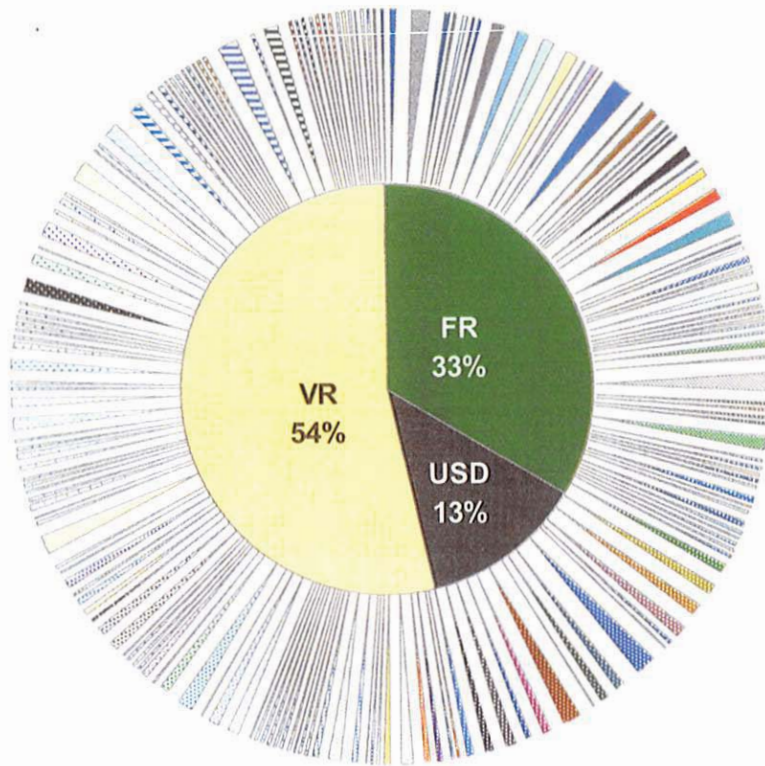
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- 1) Enables the Economic Programme**
- 2) Unlocks substantial multilateral support**
- 3) New Bonds with call protection**
- 4) Enhanced liquidity of New Bond benchmarks**
- 5) New Bonds with more frequent Variable Rate rate resets**
- 6) Reduced borrowing requirements and refinancing risk**
- 7) Access to Financial System Support Fund (FSF) with preferential terms**
- 8) USD bonds payable in USD rather than indexed local currency**
- 9) New Bonds eligible for dematerialized form through CSD**

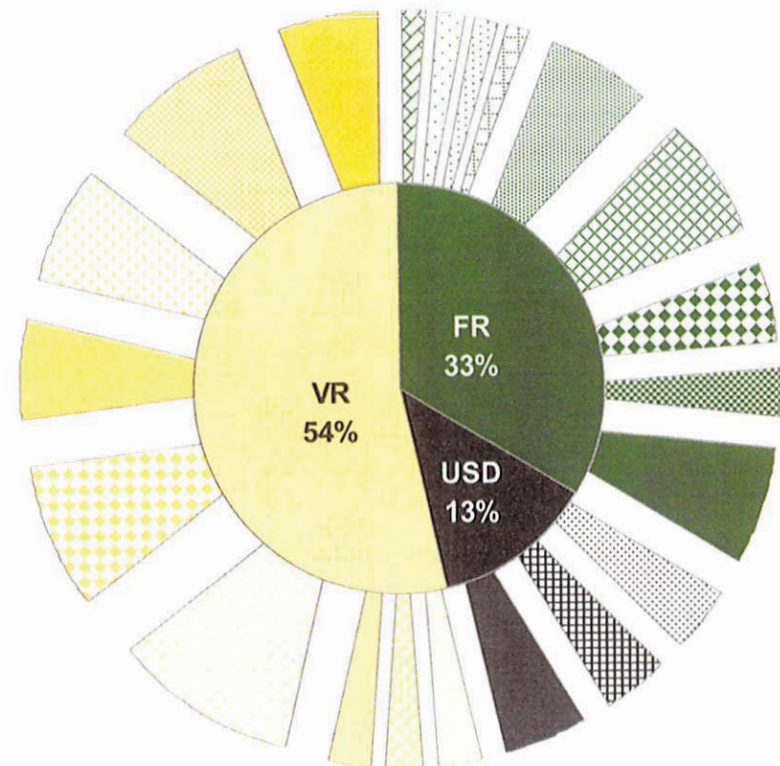


## Simplifying Jamaica's Debt Portfolio

Current Debt Portfolio



Proforma Debt Portfolio



Fragments represent individual series of bonds