



**MINISTRY OF FINANCE AND
THE PUBLIC SERVICE**

**DEBT
MANAGEMENT
STRATEGY**

FY 2009/10

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DEBT MANAGEMENT STRATEGY 2009/2010

INTRODUCTION

1. The *Debt Management Strategy* of the Government of Jamaica is an annual publication of the Ministry of Finance and the Public Service that provides information on the Government's debt management objectives, policies, plans and strategies for the fiscal year and the medium-term.

2. It provides a review of the developments and achievements during the previous year taking into account the composition of the debt portfolio, the fiscal operations, and, developments in the macro-economy and in the domestic and international capital markets. The *Debt Management Strategy* is complemented by a chapter in the annual Budget Memorandum, outlining details on Jamaica's public debt and debt developments during the preceding year. The Budget Memorandum is also published by the Ministry of Finance and the Public Service.

3. Over the past 11 years the Government has sought to:

- Maintain a prudent debt structure by:
 - having an appropriate mix of fixed-rate and floating-rate debt to further diversify and minimise interest-rate risk;
 - extending and smoothing the maturity profile of the debt to better manage refinancing risk; and
 - minimising foreign currency risk
- Further diversify the debt portfolio;
- Use market mechanisms for domestic debt issuances;
- Increase the transparency and predictability of primary market debt issuance; and
- Promote and build a liquid and efficient market for government securities.

4. The debt management strategies pursued over the years have shown progress in the following areas:

- the lengthening of the maturity profile of both the external and domestic components of the debt;
- the use of the bid auction mechanism to issue securities;
- the broadening of market consultations with key players;
- the reduction of roll-over risk;
- the reduction of pricing risk;
- debt servicing cost minimisation;
- the increasing of investor confidence; and
- the minimising of foreign currency risk in the domestic debt portfolio

5. The Strategy is designed to attain and maintain public debt sustainability, and, ensure that the overall borrowing requirements are not only met at minimum cost but are also achieved with a prudent degree of risk. In FY 2009/10 the *Debt Management Strategy* will continue to ensure that debt management policies and the operational framework are consistent with international best practices.

OVERVIEW OF FY 2008/09

6. The Government closed FY 2008/09 with limited achievements in the execution of its *Debt Management Strategy*. Both the external and domestic environments were largely unfavourable for the issuance of low cost debt during the period. Notwithstanding, there was some measure of success in attaining the stated objectives of the management of the external debt portfolio. These achievements were however largely constrained by the impact of the global economic crisis, which resulted in investors' preference for high grade credits. Conversely, the Government managed to secure the required financing to fund the Budget in the domestic market, although it was characterized by foreign exchange volatility and increasing interest rates.

7. At the end of March 2009, total public debt stood at \$1,200.3 billion. This represented a nominal increase of 20.0% over the \$1,000.7 billion recorded at the end of March 2008. During the fiscal year the Government through the Statistical Institute of Jamaica (STATIN) revised the System of National Accounts and the Gross Domestic Product (GDP) was rebased. This meant that as a percentage of GDP, total public debt at the end of March 2008 was revised to 108.2% from 126.1%. At the end of March 2009 this ratio remained relatively flat moving to 108.9%.

8. The stock of Central Government and Government Guaranteed external debt stood at \$548,668.5 million at the end of March 2009. This represented an increase of 25.1% compared with the stock of \$438,568.1 million at the end of March 2008, reflecting the movement in foreign currency versus the Jamaica dollar. In US\$ terms, the external debt remained relatively flat at US\$6,177.6 million at the end of March 2009 compared to US\$6,169.3 million at the end of March 2008. The marginal increase mainly reflected borrowings by the Central Government for social programmes. As a percentage of GDP, the external debt reflected a marginal increase to 49.8% at the end of March 2009 from 47.4% at the end of March 2008.

9. External loan inflows for the period comprised US\$386.3 million in policy based/development policy and project loans from multilateral sources, US\$19.2 million from bilateral creditors, US\$350.0 million from the international capital markets, and US\$35.5 million from other private creditors.

10. The stock of domestic debt at the end of March 2009 stood at \$651,657.4 million. The debt stock increased by \$89,549.3 million or 15.9%, over that at the end of March 2008. The main factors contributing to the increase were a higher-than-programmed budget deficit that resulted from a combination of shortfall in revenues and grants and higher expenditure, the assumption of loans of the Sugar Company of Jamaica and the adverse movement of the foreign exchange rate vis-à-vis the Jamaica dollar.

11. A total of 45 debt securities were issued in the domestic market, of which 22 or 59.0% were on a variable rate basis and the remaining 41.0% on a fixed rate basis. There were one US\$ denominated and three US\$-linked securities representing 9.3% of new issues. The weighted average maturity of the domestic debt at the end of FY 2008/09 was 5.2 years, relative to 5.5 years for FY 2007/08.

12. The prevailing global financial crisis and the attendant impact on the domestic economic environment during FY 2008/09 presented challenges to the successful implementation of the debt management strategy. These challenges were manifested through:

- i. inflationary pressures due to the increase in world oil and commodity prices in the earlier half of the year which contributed to increasing interest rates;
- ii. the requirements for additional financing to satisfy a higher than programmed fiscal deficit;
- iii. the resulting market preference for variable rate securities at the shorter end of the curve; and
- iv. the collapse of some major financial institutions in the United States and the turmoil in the global economy resulting in the reduction of investors' appetite for "B" rated emerging market credits .

13. Notwithstanding the challenges, the Government succeeded in:

- i. the issuance in June 2008 in the international capital markets of a US\$350 million 8% Bond due 2019;
- ii. raising concessionary multilateral financing that assisted in covering the shortfall that arose from the fallout from the international capital markets;
- iii. meeting its budgetary requirements; and
- iv. issuing debt securities with fifteen to thirty years tenure that not only satisfied the segment of the market requiring long-term instruments but also served to lengthen the average maturity profile.

14. During the fiscal year, Jamaica's credit ratings were reviewed by the international rating agencies Standard and Poor's (S&P) Moody's Investors Service (Moody's), and Fitch Ratings (Fitch).

15. In May 2008 S&P reaffirmed Jamaica's long-term foreign currency rating of "B" and maintained its "Stable" outlook. However, in October the rating agency revised the rating outlook from "Stable" to "Negative". Further rating action was taken in March 2009 with a lowering of Jamaica's long-term foreign currency rating from "B" to "B-" and the short-term ratings from "B" to "C". The "Negative" outlook was unchanged.

16. In November 2008 Moody's reviewed Jamaica's assigned "B1" foreign-currency rating and placed the credit on a 3-month downgrade watch. Moody's exercised the downgrade option in March 2009 by revising both the foreign currency and local currency ratings for Jamaica's bonds to "B2" from "B1" and "Ba2", respectively. The outlook remained Stable.

17. Fitch also reviewed Jamaica's ratings in November 2008. Jamaica's long-term foreign and local currency Issuer Default Ratings (IDR) was lowered to "B" from "B+" with a "Negative" outlook. The country ceiling was lowered to "B+" from "BB-". The agency assigned a short-term foreign currency IDR of "B".

PERFORMANCE REVIEW FY 2008/09

18. During FY 2008/09 the *Debt Management Strategy* sought to:

- Address aspects of liability management;
- Increase the fixed-rate proportion of the domestic debt portfolio;
- Extend and smooth the maturity profile of the debt to better manage refinancing risk;
- Minimise foreign currency exposure of the domestic debt portfolio;
- Maintain the use of the auction mechanism for issuance of domestic securities;
- Increase the transparency and predictability of debt issuance and operations;
- Foster a more interactive relationship with the local and international markets;
- Engage the multilateral institutions to seek more cost effective borrowing; and
- Issue debt in external markets equivalent to the level of external amortization.

Liability Management

19. During FY 2008/09 the Government explored the options of liability management of the domestic debt portfolio to address and better manage interest cost and roll-over risks. However, the options that were considered were not feasible in the context of increasing interest rates, the fiscal challenges and investors' demand for shorter dated securities.

Increase the Fixed-Rate Proportion of the Domestic Debt Portfolio

20. The Government was successful in achieving its target of increasing the fixed rate component of the domestic debt portfolio to 40.0%, despite the continued demand by investors for variable rate instruments at the short end of the yield curve. Of the new domestic debt issued in FY 2008/09, 54.5% was contracted on a fixed-rate basis and 45.5% on a variable-rate basis. This compared with a 34.1% fixed-rate and 65.9% variable-rate mix of the new debt issued in FY 2007/08.

21. At the end of FY 2008/09, the fixed-rate component of the domestic debt portfolio stood at 40.8% up from the 37.6% recorded at the end of FY 2007/08. The share of fixed-rate debt in the external debt portfolio declined in FY 2008/09 to 76.9% from 81.2% in FY 2007/08. This was mainly attributable to the fixed rate Euro 200 million bond that matured in February 2009 and its replacement with variable rate loans.

Extend and Smooth the Maturity Profile of the Debt to Better Manage Refinancing Risk

22. During FY 2008/09, consistent with the debt strategy objective of reducing refinancing risk over the medium-term, the Government was successful in maintaining the long term characteristic of the maturity structure of the external debt largely due to loans contracted with the multilateral agencies. However, there was limited success in extending the maturity profile of the domestic debt as investors' preference for short-term maturities continued from FY 2007/08 through to FY 2008/09.

23. Despite market demand for shorter dated debt, the Government was successful in meeting its target of 3-4% of new issues with maturities of 20 years and over.

24. New domestic debt issues with maturities between 5 and 10 years declined to 11.1%, from 28.6% in FY 2007/08. In addition, of total debt issued, 74.5% will mature within 5 years, compared with 63.4% in FY 2007/08 and 22.9% in FY 2006/07. Within this 5-year period, 70.0% will mature within 3 years.

25. Of the total domestic debt outstanding at the end of FY 2008/09, 14.5% had maturities of 10 years and over, a moderate shift from the 16.1% at the end of FY 2007/08 and 67.4% had maturities of up to 5 years, compared with 62.4% in FY 2007/08. Within the 1-5 year category, 18.6% is due to mature within a year, 38.6% in 1-3 years while 10.2% will mature in 3-5 years.

Minimising Foreign Currency Exposure of the Domestic Debt Portfolio

26. The Government was not successful in achieving the stated objective of reducing the foreign currency component of the domestic debt to below 10.0% as a result of:

- Adverse movements in the foreign currency rates vis-à-vis the J\$;
- Consolidation of loan financing made by PetroCaribe Development Fund to Central Government; and
- Un-programmed foreign currency financing in the domestic market to assist in the repayment of the Euro 200 million Bond that matured in February 2009.

27. At the end of FY 2008/09, the foreign currency component of the domestic debt had increased to 16.8% from 12.1% at the end of FY 2007/08 and 14.5% at the end of FY 2006/07. US\$-indexed bonds totaled \$29.7 billion (US\$335.9 million equivalent) or 4.6% of the domestic debt portfolio at the end of FY 2008/09, compared with \$17.8 billion (US\$249.4 million equivalent) or 3.2% at the end of FY 2007/08. The stock of US\$-denominated bonds stood at \$79.6 billion (US\$895.9 million) or 12.2% of the domestic debt portfolio at the end of FY 2008/09. This compared with \$49.9 billion (US\$701.9 million) or 8.9% of the domestic debt stock at the end of FY 2007/08.

Maintain the Use of the Auction System

28. The Government continued to use the multiple price bid auction system on a monthly basis to re-price its benchmark 90-day and 180-day Treasury Bills. A total of twenty-five auctions with nominal value of \$10.2 billion were conducted over the 12-month period. This compared with a total of twenty-nine auctions (twenty five Treasury Bills and four fixed-rate securities) with nominal value of \$16.8 billion held during FY 2007/08.

Increase Transparency and Predictability

29. During the year, the Government continued to publish comprehensive, timely and reliable information on the performance and management of the public debt, thereby ensuring greater predictability and accountability to the general public. The objective of maintaining transparency in debt issuance was achieved by the provision of up-to-date information to the market through regular updates to the Ministry's web site and public offerings to the investing community.

30. Comprehensive domestic and external debt data were published on the Ministry of Finance and the Public Service's website (www.mof.gov.jm/dmu) on a monthly basis. During FY

2008/09, the Government published on a monthly basis, schedules of upcoming market issues and the results of the issues. Information on the debt strategy, operations and key debt data including stock of debt, currency, interest and creditor compositions, monthly interest rate schedules and relevant investor information were also made available on the Ministry's website.

Interactive Market Relationship

31. During FY 2008/09, the Government continued its consultative approach with the markets. In May and August 2008, the Government hosted investor conference calls, with participation by international and local investors and other key market participants, to update them on the performance of the Jamaican economy and the medium-term outlook. The Government also conducted investor meetings in North America in the first quarter of the fiscal year. Formal consultations and discussions between the public and private sectors in the domestic market continued in an effort to explore options for reducing the debt and debt servicing costs.

Engage the Multilaterals

32. During FY 2008/09 the Government continued discussions with the multilateral institutions and their affiliates which proved beneficial as more cost effective loans were secured. These loans satisfied the Government's external borrowing and debt service requirements. This contributed to maintaining Jamaica's impeccable record of debt servicing which reinforced investors' confidence in Jamaica's credit.

Institutional Strengthening Framework

33. The Bank of Jamaica, as part of its mandate to reform the payments and securities settlement systems continued the process to implement the immobilisation of fixed-income securities. The User Acceptance Testing phases of the process were completed during the year. The major stakeholders have been engaged in training to use the Central Securities Depository.

34. The planned review of the supporting systems and infrastructure was completed during the year. However, the expected implementation of the Central Securities Depository was revised to allow for system familiarization and testing. The public education programme has been designed.

Legal and Regulatory Framework

35. The annual update of the loan ceiling was completed during the review year. The Loan Act, which gives authority to the Government for the amount of loans to be raised, was amended to increase the ceiling.

36. Drafting instructions were given to the relevant authority for amendments to be made to the statutes to facilitate the immobilization and dematerialization of Government Securities and to streamline the public debt legislation.

Government Borrowing Requirements FY 2008/09

37. The borrowing requirement for FY 2008/09 was projected at \$183.5 billion to achieve the targeted fiscal deficit. Gross new debt issued during the fiscal year (excluding debt assumed for

non-budgetary purpose) was \$226.8 billion comprising \$156.5 billion from the domestic market and \$70.3 from the external market.

38. The Government issued additional debt in respect of liabilities of the Sugar Company of Jamaica and the consolidation of loan financing made by PetroCaribe Development Fund to Central Government.

39. Due to the instability in the global financial environment the targeted external financing from the International Capital Markets equivalent to the level of amortization was not realized as only 58.3% of the projected US\$600 million was raised. Disbursements on project related loans totaled US\$187.9 million compared with the programmed US\$125 million.

DEBT STRATEGY FY 2009/10

40. The objective of the Debt Management Strategy will continue to be:

“To raise adequate levels of financing on behalf of the Government of Jamaica at minimum costs, to develop and implement strategies to ensure the long-term sustainability of the public debt while maintaining risk at an acceptable level”.

41. Debt management in FY 2009/10 will continue to focus on the strategic objective of the medium-term *Debt Management Strategy* of containment of the Government’s exposure to risk within acceptable levels.

42. The *Debt Management Strategy* will:

- Seek to aggressively reduce the interest rate impact on the debt portfolio;
- Address aspects of realignment of the portfolio;
- Maintain the fixed-rate proportion of the domestic debt portfolio;
- Extend and smooth the maturity profile of the debt;
- Minimise foreign currency exposure of the domestic debt portfolio;
- Increase the use of the bid auction mechanism for issuance of domestic securities;
- Increase the transparency and predictability of debt issuance and operations;
- Re-engage the bilateral creditors and continue to engage the multilateral institutions;
- Maintain the level of new issuance of external debt equivalent to the level of external amortization; and
- Implement the dematerialization of securities.

Seek to Aggressively Reduce Interest Rate Impact

43. The Government will engage stakeholders in the domestic market to ensure that interest costs are minimized. This will be done through constant and regular consultations with the market. The issuance terms of securities will be reviewed to better align risk-return relationships.

Realignment of the portfolio

44. Market conditions permitting, the Strategy will seek to reduce the interest cost of the debt portfolio by either, or a combination of:
- i. replacing short-term debt with long-term maturities;
 - ii. prepayment of high-cost debt; and
 - iii. replacing high-interest-rate debt with lower-interest-rate debt.

Maintain the Fixed Rate Proportion of the Domestic Debt Portfolio

45. The Strategy will seek to maintain the fixed rate portion of the domestic debt to at least 40.0% taking advantage of any favourable interest rate environment that may obtain. This will protect the portfolio from interest rate volatility and increase the predictability of debt service costs.

Extend and Smooth the Maturity Profile of the Debt to Better Manage Refinancing Risk

46. The Strategy in FY 2009/10, market conditions permitting, will continue to offer government securities with maturities of 10 years and over. The Government will seek to issue at least 40.0% of its debt with maturities in excess of five years and maintain the proportion of 3-4% with maturities of twenty years and over in the domestic market. This will facilitate the development of the long end of the yield curve with the objective of reducing refinancing risk over the medium-term. The issuance of these securities will also provide investment solutions to investors who require long-term instruments to support their asset /liability needs.

Minimise Foreign Currency Exposure of the Domestic Debt Portfolio

47. The proportion of foreign currency component of the stock of domestic debt will be reduced from 16.8% to 12.0% in line with international benchmark, market conditions permitting. The aim is to minimize costs and risks.

Increase the Use of the Auction System

48. The bid auction mechanism will be utilized to promote competitiveness through the bidding process for efficient market determined pricing. Auctions of fixed rate instruments will be conducted at a minimum of once per quarter with issues across different maturities. With the implementation of the Central Securities Depository existing issues will be reopened to build liquid benchmark instruments.

Maintain Transparency and Predictability of Debt Issuance and Operations

49. Transparency and predictability have played and will continue to play a key role in guiding the issuance strategy. The approach to risk, relative costs, market conditions and opportunities, the size of maturing securities and the maturity profile of the existing stock of debt will determine funding sources and instrument types. These are all consistent with efforts to maintain a prudent debt structure.

50. Securities will be offered in the domestic market on a monthly and pre-announced basis. While the Government remains committed to the use of market mechanisms for the issuance of securities, it will be flexible in terms of the options used to meet the budgetary requirements and debt management objectives.

51. Transparency in the Government's debt operations and borrowing programme will continue and be facilitated through:

- Monthly publications of comprehensive external and domestic debt data;
- Advance notices of upcoming debt issues;
- Monthly offerings of securities through a competitive process;
- Annual schedule of Treasury Bill Tenders;
- Monthly schedules of market issues by the end of the preceding month;
- Dissemination of the terms and conditions of instruments to the market at least three business days prior to the subscription days;
- Publication of the results of market issues will be done within three business days after the close of subscription; and
- Quarterly reports on debt related developments by the end of the month following the quarter.

52. These, along with the *Debt Management Strategy* and relevant investor information, will continue to be made available in the print media and electronically on the Ministry's website (www.mof.gov.jm/dmu).

Re-engage the Bilateral Creditors and Engage Multilateral Institutions

53. The Government will continue discussions with the multilateral institutions and their affiliates to secure longer tenure and more cost effective financing for infrastructural developments and budgetary requirements. The Government will also re-engage its bilateral creditors through the deepening of relationships to secure concessionary external financing.

Market Interaction

54. The Strategy will include the hosting of quarterly investors' conference calls with the domestic and international capital markets. Where necessary, investor presentations and road shows in North America and Europe will be conducted. This approach will provide information on, and foster greater awareness and transparency of, debt operations and debt management objectives.

Implementation of the Central Securities Depository

55. The Government in partnership with the Bank of Jamaica will continue to facilitate the development of a modern and efficient domestic capital market by the establishment of a Central Securities Depository. This will facilitate the issuance of new securities in dematerialised form only, commencing within the first quarter of the fiscal year. Dematerialization is the issuance and recording of securities in electronic format. Immobilization of all Government Securities, which is the recording and custody of beneficial ownership in paperless format, will commence on a phased basis during the year. This will facilitate speedy settlement and trading of securities and result in cost savings and risk mitigation for the Government and other stakeholders.

56. A series of public education programmes on the immobilisation of securities will be conducted to inform the investing public. The Central Securities Depository will allow for the further development of the domestic capital market by increasing efficiency and reducing risks. It will also provide real time information on secondary market activities while facilitating speed in trading and settlement of securities on a secure platform.

Update the Legal and Regulatory Framework

57. Amendments to the relevant statutes and regulations governing loan raising activities will be finalized to facilitate the immobilisation and dematerialisation of Government securities. The Government will make preparations for the enactment of new legislation governing public debt management.

Institutional Strengthening

58. Emphasis will be placed on enhancing the Government's debt management capacity. Debt management operations will be conducted on a functional basis, incorporating the Front, Middle and Back Office Model consistent with international best practice in debt management.

GOVERNMENT BORROWING REQUIREMENTS FY 2009/10

59. Gross issuance in FY 2009/10 is programmed to be \$215.7 billion, comprising \$29.4 billion for external and \$186.3 billion for domestic. In keeping with the Strategy the Government will seek to access externally an amount equivalent to the level of amortisation of the external debt. The remainder of the required financing will be raised in the domestic market.

Audley Shaw, M.P.
Minister of Finance and the Public Service
April 23, 2009

APPENDIX I

SIGNIFICANT DEVELOPMENTS IN DEBT MANAGEMENT

- July 1997 – Jamaica’s re-entry into the International Capital Markets
- March 1998 – Initial sovereign rating by Moody’s Investors Service
- April 1, 1998 – Establishment of the Debt Management Unit
- April 1998 – Consolidation and centralization of debt management functions within the Ministry of Finance and Planning
- June 1999 – Long-Term Savings Accounts introduced
- June 1999 – Implementation of 15% tax on interest withheld at source
- July 1999 – US\$ indexed-linked bonds introduced in the domestic market
- October 1999 – Auction system for the sale of Local Registered Stocks (LRS) introduced
- November 1999 – Initial sovereign rating by Standard & Poor’s
- April 2000 – First publication of the *Debt Management Strategy*
- April 2000 – Implementation of 25% tax on interest withheld at source
- March 2001 – Jamaica included as case study in IMF/World Bank publication of *Guideline for Public Debt Management*, as implementing prudent debt management practices consistent with the Guidelines
- April 2001 – First 12-year LRS sold by auction. A total of six 12-year LRS’ issued by auction during FY 2001/02
- May 2001 – First 10-year global Eurobonds issued
- December 2001 – First 20-year Eurobonds issued
- December 2001 – Schedule B Registration Statement filed with the United States’ Securities and Exchange Commission (US SEC)
- February 2002 – “Shelf” Registration programme established with the US SEC
- June 2003 – First 15-year LRS sold by auction
- September 2003 – First 30-year LRS sold by auction
- April 2004 – Launch of quarterly Investors’ Conference Call
- November 2004 – Publication of quarterly financing requirements
- March 2005 – Jamaica selected as a member of the Steering Committee on the Latin American and Caribbean Debt Group
- May 2005 – Jamaica ended its borrowing relationship with the IMF by fully repaying all outstanding debt to that institution
- June 2005 – Air Jamaica, the national airline, successfully accessed the international and regional capital markets
- February 2006 – First 30-year global Eurobonds issued
- March 2007 – First 32-year amortizing Eurobonds issued
- October 2007 – First large and liquid bond with eligibility to the JP Morgan Emerging Bond Index+ (EMBI+)