GOVERNMENT OF JAMAICA

PUBLIC DEBT MANAGEMENT ANNUAL REPORT FY 2013/14

Table of Contents

FOREWORD iv
ACKNOWLEDGEMENTS v
OVERVIEW 1
EVOLUTION OF PUBLIC DEBT 5
ANNUAL PORTFOLIO REVIEW 12
DOMESTIC DEBT 13
INSTRUMENT TYPE COMPOSITION 13
CURRENCY COMPOSITION 15
INTEREST RATE STRUCTURE 16
MATURITY STRUCTURE 16
EXTERNAL DEBT 17
CREDITOR COMPOSITION 17
CURRENCY COMPOSITION 18
INTEREST RATE STRUCTURE 19
MATURITY STRUCTURE 19
DEBT SERVICE 21
MARKET DEVELOPMENTS 23
INTRODUCTION 23
BANK OF JAMAICA ACTIVITIES 24
INTEREST RATES 25
REVIEW OF TRADING LEVELS FOR GOJ GLOBAL BONDS 29
CAP DEBT EXCHANGE 31
CREDIT RATINGS 32
INVESTOR BASE 34
MONITORING AND DISBURSEMENT REPORT 37
DEBT MANAGEMENT SYSTEMS SUPPORT 39
INSTITUTIONAL DEVELOPMENTS 41
APPENDIX I- Debt Targets and Outcomes 45
APPENDIX II-Holder Categories of GOJ Securities 46
APPENDIX III-Profile on the Stock of Public Debt 47
GLOSSARY 48

Table of Charts

Chart 1: Domestic and External Debt-to-GDP at end-FY 2009/10 to end-FY 2013/14.....5
Chart 2: Structure of GOJ External Debt Portfolio at end-FY 2009/10 to end-FY 2013/14.....6
Chart 3: Maturity Structure of Total Debt Portfolio in Percentage at end-FY 2009/10 to end-FY 2013/14.....9
Chart 4: Total Debt Portfolio Currency Composition at end-FY 2009/10 to end-FY 2013/14.....10
Chart 5: Composition of Domestic Debt at end-FY2013/14.....14
Chart 6: Composition of Domestic Debt at end-FY2012/13.....15
Chart 7: Currency Composition of Domestic Debt.....15
Chart 8: Currency Composition of Domestic Debt.....15
Chart 9: Interest Rate Structure of Domestic Debt at end-FY2012/13 to end-FY 2013/14 (in Billions of dollars).....16
Chart 10: Domestic Debt Maturity Structure at end-FY2012/13 to end-FY 2013/14 (in Billions of dollars).....16
Chart 11: External Debt Creditor Composition.....18
Chart 12: External Debt Creditor Composition.....18
Chart 13: External Debt Currency Composition at end-FY 2012/13.....18
Chart 14: External Debt Currency Composition at end-FY 2013/14.....18
Chart 15: External Debt Interest Rate Structure in Percentage at end-FY 2012/13 and end-FY 2013/14.....19
Chart 16: External Debt Remaining Maturity Structure at end-FY 2012/13 and end-March 2013/14.....20
Chart 17: Domestic Debt Service-to-Tax Revenue FY 2009/10 to FY 2013/14.....21
Chart 18: Domestic Treasury Bill Yields FY 2012/13 - FY 2013/14.....26
Chart 19: US Treasury Bill Yields for 10 YR, 20 YR and 30 YR.....27
Chart 20: US Treasury Bill Yields for 1 Month and 6 Month.....27
Chart 21: US LIBOR Rates April 2012 - March 2014.....28
Chart 22: Trading Levels of GOJ Global Bonds for FY 2013/14.....29
Chart 23: Yield Levels of GOJ Global Bonds for FY 2013/14.....30
Chart 24: Holders of GOJ Domestic Securities at end-FY 2013/14.....34
Chart 25: Holders of GOJ Domestic Securities at end-FY 2013/14.....35
Chart 26: Holdings of Domestic GOJ Securities by Interest Rate Type at end-FY 2013/14.....36
Chart 27: Remaining Maturity of Holders of GOJ Domestic Securities at end-FY 2013/14.....36

Figure 1: Factors contributing to the increase in Debt-to-GDP.....5
Figure 2: Decrease in Fixed-Rate External Debt (end of period).....8
Figure 3: Increase in Fixed-Rate Domestic Debt (end of period).....8
Figure 4: Institutional Developments.....41

Table 1: Creditor Composition of the External Debt Portfolio at end-FY 2009/10 to end-FY 2013/14.....7
Table 2: Total Debt Portfolio Currency Composition in Percentage at end-FY 2009/10 to end-FY 2013/14.....10
Table 3: Instrument Type Composition of Domestic Debt Portfolio at end-FY2012/13 to end-FY 2013/14.....14
Table 4: External Debt Composition by Creditor at end-FY2012/13 to end-FY 2013/14 (in Billions of US dollars).....17
Table 5: Change in External Debt Maturity Structure at end-FY 2012/13 and end-FY 2013/14.....19
Table 6: Debt Service Indicators FY 2009/10 to FY 2013/14.....22
Table 7: Jamaica's Credit Ratings during FY 2013/14.....32
Table 8: Debt Targets and Outcomes.....45
Table 9: Holder Categories of GOJ Securities.....46

FOREWORD

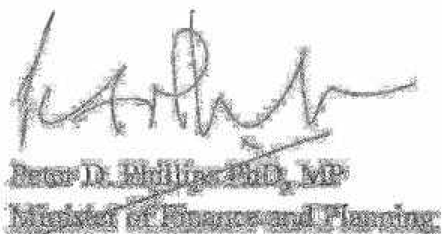
For the first time, the Government of Jamaica (GOJ) will publish its Annual Report and Medium-Term Debt Management Strategy (MTDS) as stand-alone documents. This is a part of the strategic effort to improve information efficacy.

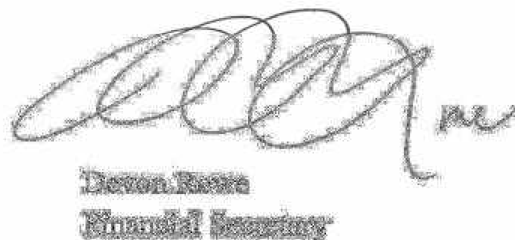
The Annual Report, governed by the Public Debt Management Act 2012 (PDMA), gives details of the GOJ's debt and debt management operations for FY 2013/14.

The positive effects of the National Debt Exchange (NDX) executed at the end of FY 2012/13, were manifested in FY 2013/14. This along with the implementation of several public debt management reform initiatives and the approval of an International Monetary Fund Extended Fund Facility (IMF/EFF) arrangement facilitated the successful financing of the GOJ's budgetary obligations.

The GOJ reaffirms its commitment to continue pursuing prudent debt management to fund the Budget at minimum cost while maintaining risks at manageable levels.

In adhering to the objective of open and inclusive dialogue with stakeholders, the GOJ welcomes your comments at: pdr@mof.gov.jm





ACKNOWLEDGEMENTS

The Annual Report, governed by the Public Debt Management Act 2012 (PDMA), gives details of the outcomes of the Government of Jamaica's (GOJ) public debt management operations for FY 2013/14.

The DMB team must be acknowledged for the significant input given in the development and production of this document. In adhering to the Ministry's core value of transparency, the team worked tirelessly to ensure the publication presented an accurate picture of GOJ's public debt operations for the review period.

I want to express sincere thanks to Miss Darlene Morrison, the Deputy Financial Secretary, Economic Management Division; Mrs. Michele Robinson, Debt Management Consultant; and the staff of the World Bank for their guidance and input which contributed to the development of this Annual Report.

Dian Black
Principal Director (Acting)
Debt Management Branch

OVERVIEW

During FY 2013/14, debt management operations were conducted in an improving global environment and relatively stable domestic macroeconomic conditions. The world economy experienced moderate growth during FY 2013/14. However, there were divergent growth outcomes between advanced and emerging market economies. Higher consumer demand in the United States of America (USA) fuelled by low monetary policy rates contributed to the improvement in the growth rate. The US economy showed signs of continued strengthening despite fiscal consolidation and the impasse in the political administration regarding the debt ceiling. Japan's economy, which has experienced low growth and deflation over the past few years, showed signs of improvement following expansionary monetary and fiscal policies to stimulate the dormant economy. In contrast, economic growth in the euro area declined. There was growth in the core countries of the European Union due to improved consumer and producer confidence. However, peripheral countries such as Italy and Spain experienced negative growth. In contrast to advanced economies, emerging market economies experienced growth but at lower rates than pre-crises levels.

The slowdown reflects a combination of cyclical factors in countries such as Russia and South Africa, and a decline in output in China and India. External risks in Latin America and the Caribbean (LAC) receded in 2013 due to policy actions in the euro area and the United States of America. Consequently, the economic growth in LAC countries is estimated to have improved to 3.5% in 2013 compared to 3.0% in 2012. The domestic economy showed signs of improvement in FY 2013/14, as the growth rate improved relative to the previous fiscal year.

During 2013, debt issuances in the international capital markets (ICM) by emerging market sovereigns, including LAC countries, were relatively mixed. Overall, the volume of new issuances increased over 2012. For the first half of the year, the continued accommodative monetary policies in the United States, facilitated through the Federal Reserve's (FED) wide-scale asset repurchase programme, caused further declines in US Treasury yields and US dollar reference rates. Consequently, this buoyed the demand for sovereign debt with higher spreads and relatively low default risk. Emerging market countries, including LAC countries took full

advantage of this opportunity. Consequently, sovereign debt issuances increased in the first half of 2013 relative to 2012.

However, by May, news that the FED envisaged phasing out its asset repurchase programme (tapering) in the future caused a wide-scale sell-off of emerging market debt, as fears regarding spread tightening and currency volatility increased. There was a marked reversal of capital flows from emerging to developed markets during the second half of 2013. As a result, debt issued by emerging market countries in the ICM was tempered. Nonetheless, there were variations across regions, issuances declined at a slow pace in Asia while in LAC countries, particularly Brazil and Mexico, there were marked reductions in debt issuances largely denominated in US dollars. Despite the slowdown in emerging markets, Trinidad and Tobago was able to successfully tap the market for US$550.0mn in December 2013. While Jamaica had no need to access the markets during the fiscal year, a favourable environment existed for issues in the ICM.

Macroeconomic conditions in Jamaica remained relatively stable over the fiscal year. At end-March 2014, real Gross Domestic Product (GDP) grew by an estimated 0.9% which compares favourably to the previous fiscal year when real GDP declined by 0.7%. This growth was occasioned by output increases in the financial services sector as well as tourism, mining and quarrying, and agriculture. Point-to-point inflation also moderated somewhat during the fiscal year. Inflation is estimated at 8.1% for the review period compared to 9.1% in FY 2012/13. The main sources of inflation throughout the fiscal year were the pass-through effects of the depreciation of the Jamaica dollar and administrative increases approved by the Office of Utilities Regulation (OUR) for bus fares, as well as water and sewage.

In the external accounts, Jamaica's current account deficit recorded moderate improvements which largely reflected a contraction in imports of fuel, raw materials and consumer goods. The Net International Reserves (NIR) increased to US$1,303.6mn, representing 19.5 weeks of imports of goods as at March 2014, from US$884.3mn or 15.4 weeks of imports at end-FY 2012/13. On the fiscal side, the central government primary surplus was 7.7% of GDP at end-March 2014, reflecting a 2.3 percentage point increase over the previous year's 5.4%. Expenditure constraints played a critical role toward achievement of the 7.7% primary surplus.

The positive macroeconomic indicators augur well for improved fiscal and debt operations. Continued reduction in the fiscal deficit should lower government's overall financing requirements and contribute to lowering the rate of growth of the debt. Over the medium term this should result in the achievement of the Government's strategic debt targets and reduce the debt to sustainable levels. Despite improvements in most of the economic indicators, the Jamaica dollar depreciated by approximately 11.0% vis-à-vis the US Dollar. This contributed to a 6.0% increase in the debt stock.

In FY 2013/14, the International Monetary Fund (IMF) approved a four-year Extended Fund Facility (EFF) arrangement with the Government of Jamaica (GOJ), to provide funding of SDR[1] 615.4 million or approximately US$952.0mn over the period. The objective of the programme is to help create the conditions for sustained growth through significant improvement in fiscal operations, debt and competitiveness. Among the measures undertaken by the GOJ to accomplish the above objectives are:

- Tax structure reform;
- Completion of the Central Treasury Management System (CTMS) implementation to improve management of cash balances;
- Strengthening of the supervisory, regulatory, and crisis management frameworks of the financial sector to enhance resilience; and
- Facilitation of catalytic and strategic investments through such actions as streamlining the business registration process and pursuing fuel-source diversification to reduce energy costs.

The EFF also paved the way for the unlocking of funds for budgetary support from multilaterals and facilitated the achievement of conditions necessary for the country's ratings to be upgraded during the fiscal year. Fitch Ratings (Fitch) and Standard & Poor's Ratings Services (S&P) upgraded Jamaica's long-term foreign and local currency sovereign credit ratings. Moody's Investors Service (Moody's) maintained the sovereign's ratings, but revised the outlook from "stable" to "positive".

[1] Special Drawing Rights is an artificial currency unit based on several national currencies. It serves as the monetary unit of several international organisations, including the IMF.

The GOJ took the strategic decision to take advantage of loan inflows from multilateral creditors and from the PetroCaribe Development Fund (PCDF) at lower interest rates, relative to domestic market issuances with similar tenors. Despite the currency exposure, the favourable terms on these instruments outweigh the risks and have influenced the decision to contract more foreign currency loans.

The management of contingent liabilities has been guided by the Public Debt Management Act (PDMA) and benchmarks under the IMF Extended Fund Facility. The reduction in the level of contingent liabilities to GDP is an objective which has a prescribed trajectory for reduction under the PDMA. The Act establishes targets as a percentage of GDP at 8.0% by end-FY 2016/17, 5.0% by end-FY 2021/22 and 3.0% by end-FY 2026/27.

Debt operations during the fiscal year were informed by the FY 2013/14 Medium-Term Debt Management Strategy (MTDS). The Government's overarching strategic objective was to minimise cost and maintain risk at prudent levels in the public debt portfolio. Risk targets set for the portfolio for the fiscal year included: the average-time-to-maturity (ATM); the percentage of debt maturing in one year or less; the ratio of fixed- to variable-interest rate debt; and the proportion of foreign currency debt. These targets were met with the exception of the fixed-to-variable-rate benchmark in the external debt portfolio, which had a targeted band of 65.0% - 75.0%. This indicator's outturn fell below target[2] at 63.8% mainly as a result of the Government borrowing variable-rate debt from multilateral sources to take advantage of low London Interbank Offered Rates (LIBOR).

Institutional reforms involving reorganisation and transformation of the Debt Management Unit within the Ministry of Finance and Planning continued. The restructured Debt Management Branch (DMB) has been organised along functional lines – with front, middle and back offices to undertake debt raising, analytical, recording and settlement functions. This conforms to the organisational structures found in modern debt management offices worldwide.

The Debt Management Branch will continue its mandate to manage portfolio exposures, ensuring the lowest possible borrowing costs while supporting fiscal policy and coordinating with monetary policy.

---

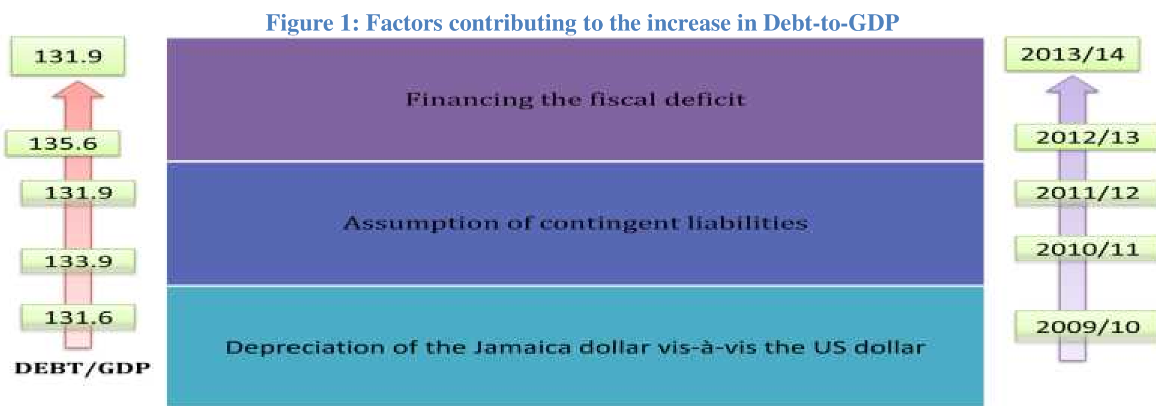
[2] See Appendix I

EVOLUTION OF PUBLIC DEBT

Total public debt increased from $1,434.8bn or 131.6% of GDP at end-FY 2009/10 to $1,946.0bn or 131.9% of GDP at end FY 2013/14, as seen in Figure 1 and Chart 1. The main factors contributing to the nominal increase of the public debt over the five-year period were:

- Financing the fiscal deficit;
- Depreciation of the Jamaica dollar vis-à-vis the US dollar; and
- Assumption of contingent liabilities;

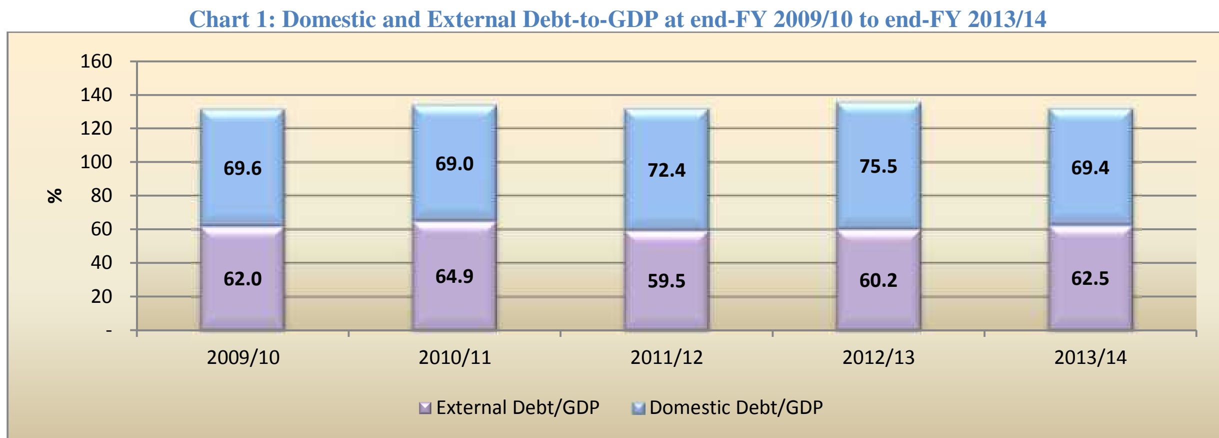
Figure 1: Factors contributing to the increase in Debt-to-GDP



Source: Ministry of Finance and Planning

Evolution of the domestic debt: Over the five-year review period domestic debt has consistently been the larger component of the debt portfolio, as seen in Chart 1. The composition of the portfolio includes bonds and non-marketable loans. Domestic debt as a percentage of GDP increased from 69.6% at end-FY 2009/10, peaked at 75.5% at end-FY 2012/13, then decreased to 69.4% at end-FY 2013/14.

Chart 1: Domestic and External Debt-to-GDP at end-FY 2009/10 to end-FY 2013/14



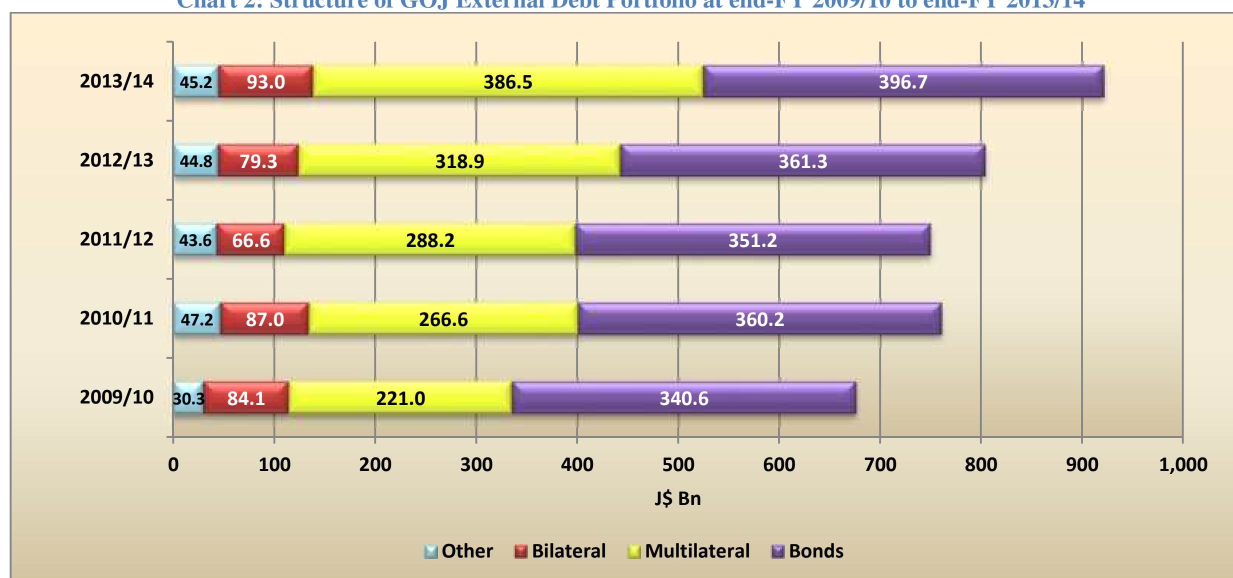
Source: Ministry of Finance and Planning

Evolution of the external debt: The external debt-to-GDP ratio has remained flat over the review period between FY 2009/10 to FY 2013/14, as seen in Chart 1.

Official creditors, comprising multilateral and bilateral sources, accounted for 45.1% of the external portfolio at end-FY 2009/10. Notably, by end-FY 2012/13, this category accounted for 49.5% of the portfolio. The category replaced private creditors as the largest proportion in the external portfolio at end-FY 2013/14, representing 52.0% (Table 1).

The dominant representation of the official creditor category within the external portfolio is directly reflective of the strategy pursued over the period. Over the four-year period FY 2009/10 to FY 2012/13, the proportion of multilateral debt within the external portfolio gradually increased from 32.7% or $221.0bn at end-FY 2009/10 to 39.6% or $318.9bn at end FY 2012/13. At the end of FY 2013/14 amounts owing to multilaterals increased to $386.5bn or 41.9% of the external portfolio. The gradual increase of multilateral funding from FY 2009/10 to FY 2013/14 comes against the background of Jamaica's re-establishment of a borrowing relationship with the IMF and an increase in the value of budget support loans from the other multilaterals.

Chart 2: Structure of GOJ External Debt Portfolio at end-FY 2009/10 to end-FY 2013/14



Source: Ministry of Finance and Planning

The proportion of bilateral loans within the external portfolio fluctuated from a peak of 12.4% or $84.1bn at end-FY 2009/10 to a low of 8.9% or $66.6bn at end-FY 2011/12. There was an

increase to 9.9% or $79.3bn at end-FY 2012/13. At end FY 2013/14, bilateral loans increased to 10.1% or $93.0bn due primarily to inflows from China.

Private creditors, of which bonds issued in the ICM represented 43.1%, at end-March 2014, accounted for the second largest proportion of the external debt portfolio at 48.0%. The maturity of the Euro 200mn 11.0% Bond in July 2012 and the increase of official funding resulted in a reduction in the proportion of private creditors from 54.9% at end-FY 2009/10 to 48.0% at end-FY 2013/14.

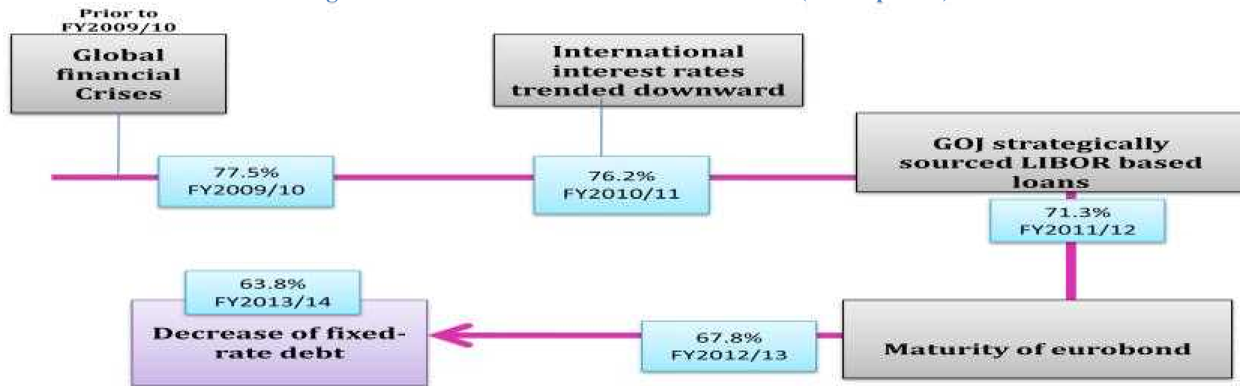
Table 1: Creditor Composition of the External Debt Portfolio at end-FY 2009/10 to end-FY 2013/14

	2009/10	2010/11	2011/12	2012/13	2013/14
Official Creditors	**45.1%**	**46.5%**	**47.3%**	**49.5%**	**52.0%**
Bilateral	12.4%	11.4%	8.9%	9.9%	10.1%
Multilateral	32.7%	35.0%	38.4%	39.6%	41.9%
Private Creditors	**54.9%**	**53.5%**	**52.7%**	**50.5%**	**48.0%**
Bonds	50.4%	47.3%	46.9%	44.9%	43.1%
Other	4.5%	6.2%	5.8%	5.6%	4.9%

Source: Ministry of Finance and Planning

Decrease of external fixed-rate debt: In the aftermath of the global financial crises in 2008, international interest rates gradually trended downwards to historically low levels. The GOJ strategically opted to contract LIBOR based loans to take advantage of the cost benefits accruing from variable-rate loans. Additionally, the loans carried the option to convert at a later date from variable to fixed rate. As a result, the fixed-rate portion of the debt moved proportionately downwards as variable-rate financing increased. Concomitantly, the maturing of a fixed-rate eurobond also contributed to the decline in the level of fixed-rate debt in the portfolio. To this end, fixed-rate debt gradually declined from 77.5% at end-FY 2009/10 to 63.8% at end-March 2014.

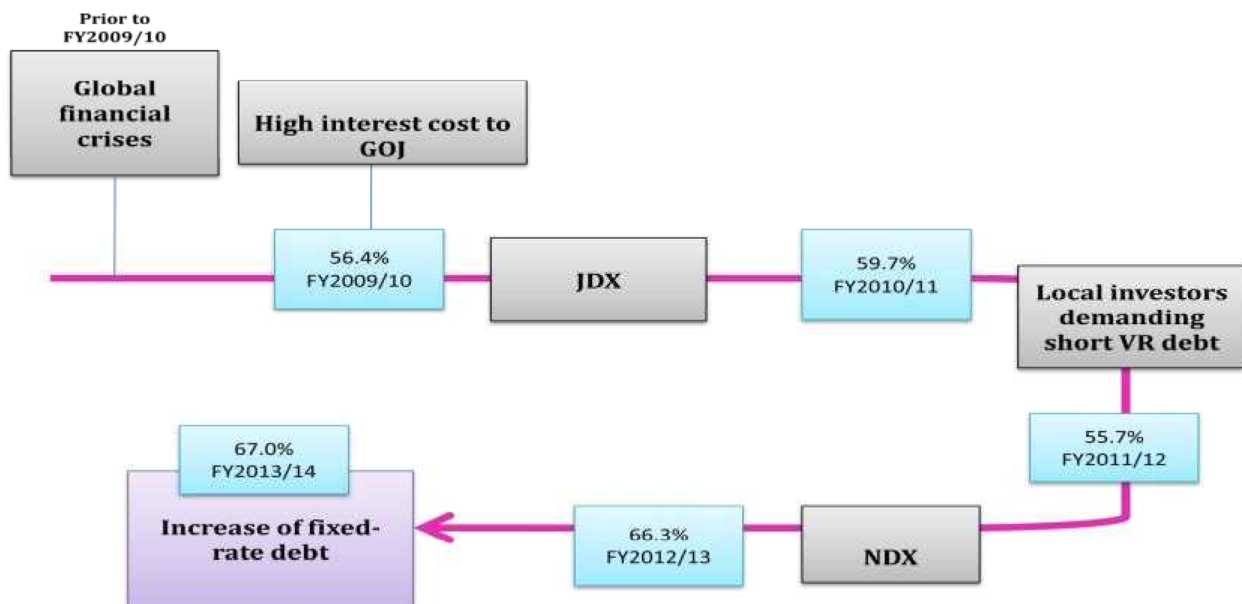
Figure 2: Decrease in Fixed-Rate External Debt (end of period)



Source: Ministry of Finance and Planning

Increase of domestic fixed-rate debt: On the domestic side, the 2008 global economic crisis and persistent uncertainty in the macroeconomic environment that continued into FY 2009/10 led to local investors keeping short positions and choosing to remain liquid. In the face of high interest rates and the uncertainty underlying the macroeconomic fundamentals, the market continued to exhibit a preference for short-term variable rate instruments. Consequently, the GOJ issued a greater proportion of variable-rate debt to satisfy investor demand, albeit at higher interest cost within the domestic portfolio.

Figure 3: Increase in Fixed-Rate Domestic Debt (end of period)

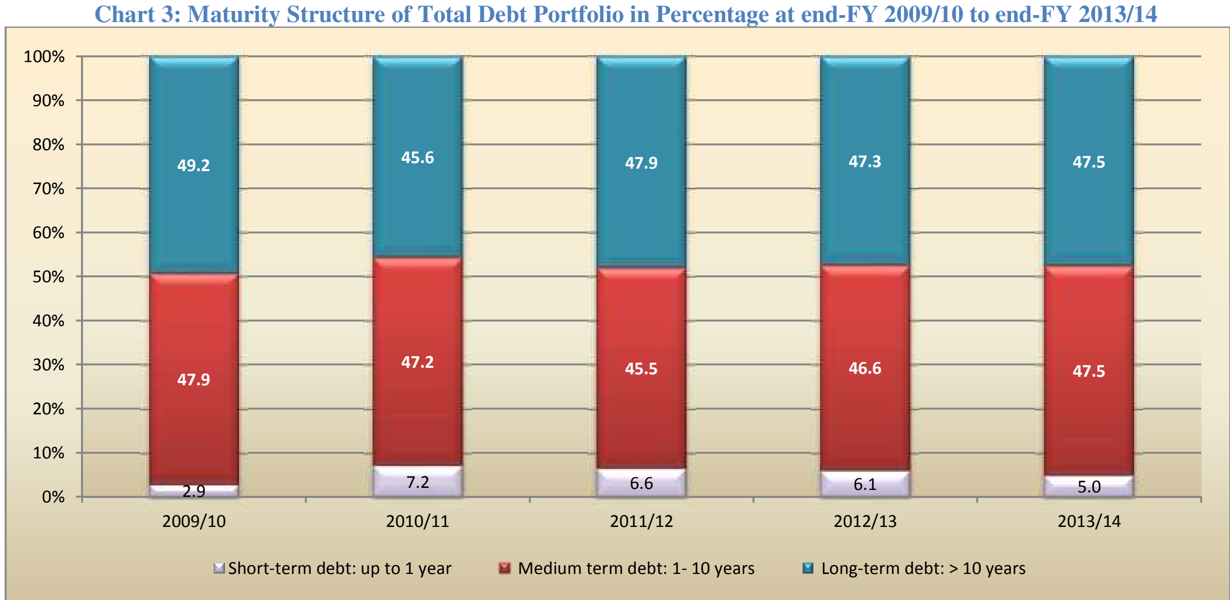


Source: Ministry of Finance and Planning

Against this background, the GOJ executed the Jamaica Debt Exchange (JDX) in February 2010, which benefited the portfolio by reducing borrowing costs, lengthening maturities, improving liquidity of the domestic bond market and reducing risks, such as refinancing and interest rate risks. Execution of the JDX in FY 2009/10 and a second liability management programme, the National Debt Exchange (NDX) in FY 2012/13, contributed to an increase in the fixed-rate debt from 56.4% in FY 2009/10 to 67.0% at end FY 2013/14.

Maturity structure of the debt: The maturity profile of the total debt portfolio was smoothened during the period FY 2009/10 to FY 2013/14 consequent on the execution of two liability management exercises and strategic debt issuances. Short-term debt remains the smallest segment of the portfolio at less than 8.0%. This is consistent with the MTDS objective of reducing refinancing risk by maintaining the share of debt maturing in one year or less below 10.0%, as indicated by Chart 3: Maturity Structure of Total Debt Portfolio in Percentage

Chart 3: Maturity Structure of Total Debt Portfolio in Percentage at end-FY 2009/10 to end-FY 2013/14

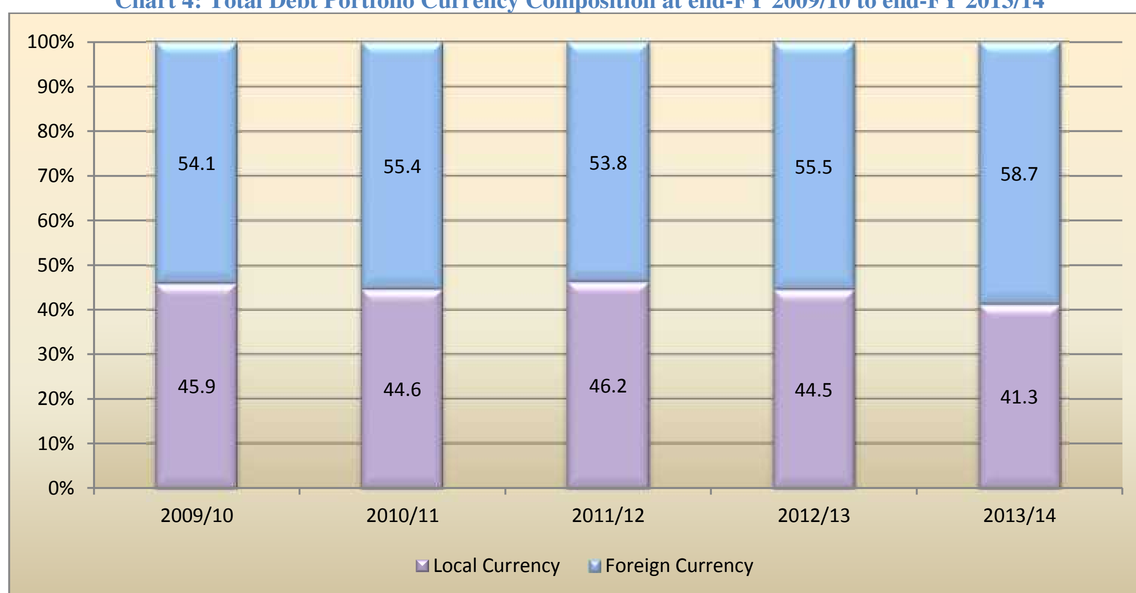


Source: Ministry of Finance and Planning

Currency composition of the debt: The currency composition of the debt portfolio identifies the exposure of the debt to various currencies and, by extension, is an indicator of the level of foreign exchange risk. As shown in Table 2, the US dollar remains the major currency in the debt portfolio. At end FY 2009/10, the US dollar portion was 44.2% and by FY 2013/14 the share increased to 54.0%. The increase is a result of positive net US dollar inflows and the

assumption of US dollar contingent liabilities. The second major currency in the portfolio is the Jamaica dollar which decreased from 45.9% at end-FY 2009/10 to 41.3% at end FY 2013/14. The Euro, as the third major currency component, decreased from 7.6% at end-FY 2009/10 to 2.8% at end-FY 2013/14. Inflows from China resulted in an increase in the currency share of the Renminbi Yuan which nonetheless remains below 1.0%.

Chart 4: Total Debt Portfolio Currency Composition at end-FY 2009/10 to end-FY 2013/14



Source: Ministry of Finance and Planning

Table 2: Total Debt Portfolio Currency Composition in Percentage at end-FY 2009/10 to end-FY 2013/14

	2009/10	2010/11	2011/12	2012/13	2013/14
Local Currency	**45.9**	**44.6**	**46.2**	**44.5**	**41.3**
Foreign Currency	**54.1**	**55.4**	**53.8**	**55.5**	**58.7**
United States dollar	44.2	46.8	47.9	51.0	54.0
Euro	7.6	6.6	4.2	2.5	2.8
Japanese yen	1.2	1.0	0.8	0.6	0.5
Chinese Renminbi Yuan	0.5	0.6	0.6	0.7	0.8
Pound sterling	0.3	0.2	0.1	0.1	0.1
Other	0.3	0.2	0.2	0.6	0.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Ministry of Finance and Planning

Guarantees of public sector debt: The GOJ is committed to the prudent management of public sector loan guarantees, which are explicit contingent liabilities. The aim is to reduce the

proportion of guaranteed debt as a percent of GDP. It is envisaged that the proportion of explicit contingent liabilities will be reduced from approximately 12.6% of GDP at end-March 2013 to less than 8.0% of GDP by end-March 2017, in keeping with the PDMA. The reform measures being implemented to contain the level of contingent liabilities should help to minimise the potential negative impact on the fiscal and debt operations.

Jamaica's debt-to-GDP is expected to continue on a downward trajectory towards sustainable levels over the medium- to long-term. This is a direct result of the reform measures being implemented, including reform of the tax structure, other fiscal and structural reforms, which, *inter alia,* engender fiscal prudence, improved management of the debt including contingent liabilities, and higher levels of economic growth.

ANNUAL PORTFOLIO REVIEW

INTRODUCTION

The MTDS objective of raising adequate levels of financing to satisfy budgetary requirements at minimum cost while keeping risk at prudent levels was achieved within the context of an improved macro-economic environment and decreasing international interest rates during FY 2013/14. In addition, success was achieved in the following areas of the debt portfolio:

- Maintaining an appropriate mix of fixed-rate and floating-rate debt to further diversify and minimise interest-rate risk; and
- Reducing refinancing risk by:
  - Maintaining the average time to maturity above 10 years; and
  - Keeping debt maturing in less than one year below 8.0%.

At end-March 2014, total public debt stood at $1,946.0bn or 131.9% of GDP compared to $1,812.6bn or 135.6% at end-March 2013, which represents an increase of $133.4bn or 7.4%. Under the EFF[3] definition, the total stock of debt is $2,137.5bn or 144.9% of GDP at end-March 2014.

[3]Total debt as defined by the GOJ here includes Bank of Jamaica, Central Government and external guaranteed debt.

Total debt defined under the EFF includes Central Government debt, net PetroCaribe debt, and external and domestic guaranteed debt.

DOMESTIC DEBT

FY 2013/14 was characterised by an environment of improving confidence within the economy arising from the approval of the EFF by the IMF, the subsequent successful quarterly EFF reviews, relatively low domestic interest rates and improved macroeconomic indicators. In February 2013, the Government executed a liability management exercise, the NDX, with the objectives of extending the maturity profile and reducing domestic interest costs. The NDX extended the maturity profile of the domestic portfolio by approximately five years and reduced interest rates by 200 basis points (bps).

The government did not tap the domestic capital market for funding during FY 2013/14. Rather, loans were sourced from the PetroCaribe Development Fund to cover budgeted expenses. This increased the foreign currency proportion of the domestic debt. While net loan inflows were negative, the assumption of contingent liabilities and the depreciation of the domestic currency caused the portfolio balance to increase by 1.6% at end-FY 2013/14 when compared to end-FY 2012/13.

At end-FY 2013/14, the stock of domestic debt was $1,024.5bn or 69.4% of GDP, a net increase of $16.2bn, when compared to $1,008.3bn or 75.5% of GDP at end-FY 2012/13. The share of the domestic debt to total debt decreased from 55.6% at end-FY 2012/13 to 52.6% at end-FY 2013/14.

INSTRUMENT TYPE COMPOSITION

The stock comprises 88.5% marketable securities and 11.5% standard loans. Of the marketable securities outstanding at the end of FY 2013/14, Fixed-Rate Benchmark Investment Notes remained the largest component of the domestic debt portfolio, and Variable-Rate Benchmark Investment Notes represented the second largest. At end-FY 2013/14, Fixed-Rate and Variable-Rate Benchmark Notes accounted for $421.2bn or 41.1% and $334.9bn or 32.7%, respectively. The US dollar Benchmark and CPI-Indexed Bonds represented 6.9% and 3.9% respectively.

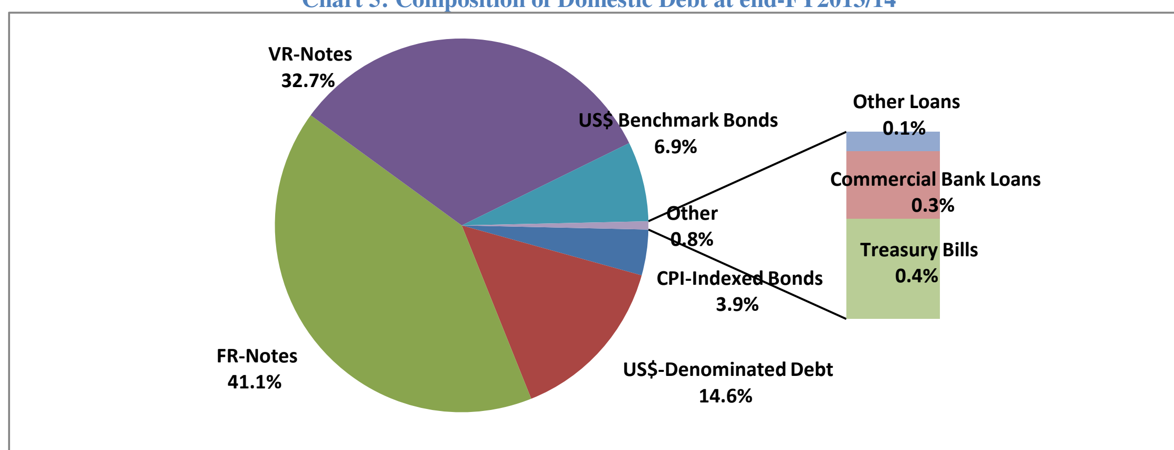
There was success in reducing the variable-rate component within the domestic portfolio by $1.5bn or 0.8%. Disbursements from the PCDF and assumption of contingent liabilities resulted in an increase in US dollar non-marketable loans by US$0.3bn or 24.8% at end-March 2014.

Table 3: Instrument Type Composition of Domestic Debt Portfolio at end-FY2012/13 to end-FY 2013/14 (in Billions of dollars)

	Mar-13	Mar-14	% Change	$ Change
TOTAL DOMESTIC DEBT	**1,008.3**	**1,024.5**	**1.6**	**16.2**
J$ Benchmark Bonds	762.2	756.1	-0.8	-6.0
FR-Notes	426.2	421.2	-1.2	-5.0
VR-Notes	336.0	334.9	-0.3	-1.1
US$-Denominated Debt	108.3	149.8	38.3	41.5
US$ Benchmark Bonds	92.9	70.8	-23.8	-22.1
CPI-Indexed Bonds	36.9	40.3	9.2	3.4
Treasury Bills	4.0	4.0	0.0	0.0
Commercial Bank Loans	3.2	2.7	-15.6	-0.5
Other Loans	0.9	0.8	-11.1	-0.1
Perpetual Annuities	0.0	0.0	0.0	0.0

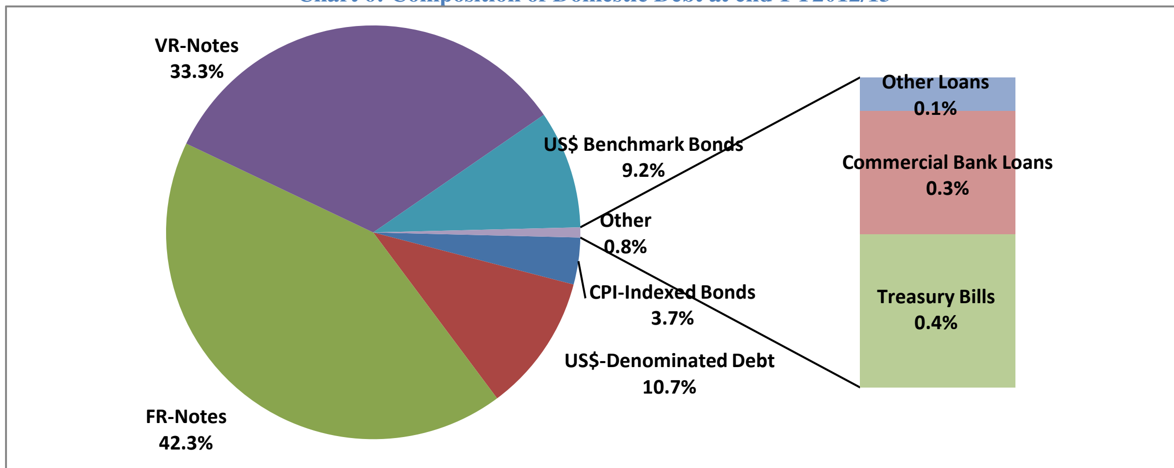
Source: Ministry of Finance and Planning

Chart 5: Composition of Domestic Debt at end-FY2013/14



Source: Ministry of Finance and Planning

Chart 6: Composition of Domestic Debt at end-FY2012/13

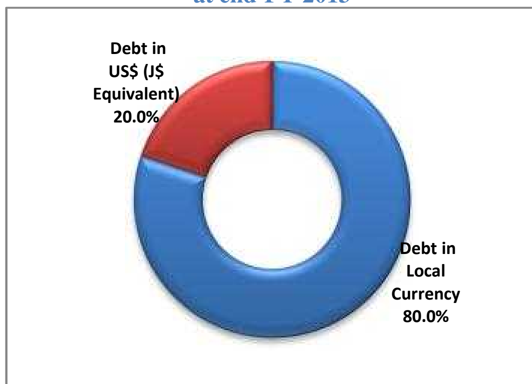


Source: Ministry of Finance and Planning

CURRENCY COMPOSITION

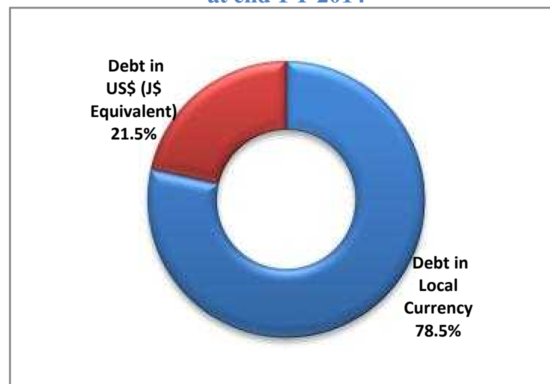
At end-FY 2013/14, the US dollar-denominated debt decreased by US$0.02bn or 1.1% when compared to end-FY 2012/13. In Jamaica dollar terms, the proportion of foreign currency debt increased from 20.0% at end-March 2013 to 21.5% at end-March 2014 due to depreciation of the Jamaica dollar and increased net US dollar inflows. At end-FY 2013/14, debt denominated in Jamaica dollar was $803.9bn compared to $807.1bn at end-FY 2012/13, as indicated in Chart 7 and Chart 8.

Chart 7: Currency Composition of Domestic Debt at end-FY 2013



Source: Ministry of Finance and Planning

Chart 8: Currency Composition of Domestic Debt at end-FY 2014

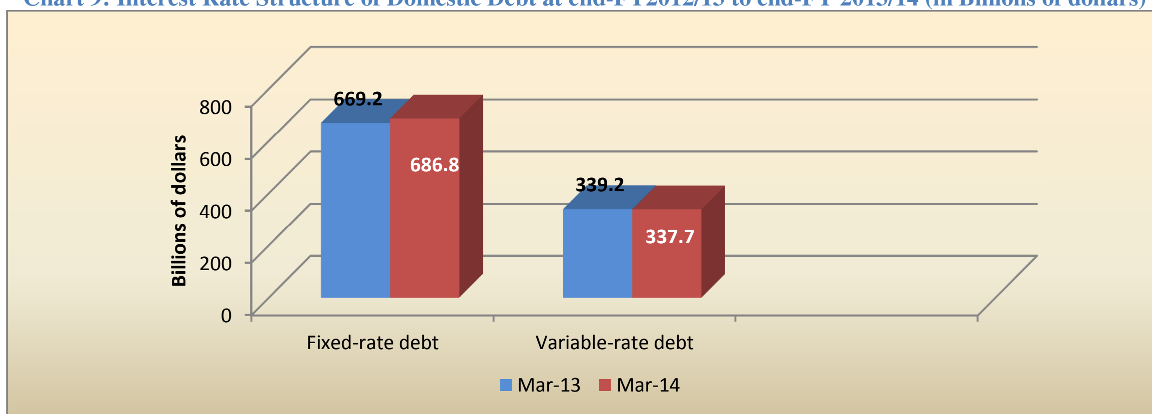


Source: Ministry of Finance and Planning

INTEREST RATE STRUCTURE

The majority of the debt contracted in FY 2013/14 was on a fixed rate basis, which effectively increased the fixed-rate component. The fixed-rate proportion increased from $669.2bn or 66.3% to $686.8bn or 67.0% at end March 2014.

Chart 9: Interest Rate Structure of Domestic Debt at end-FY2012/13 to end-FY 2013/14 (in Billions of dollars)

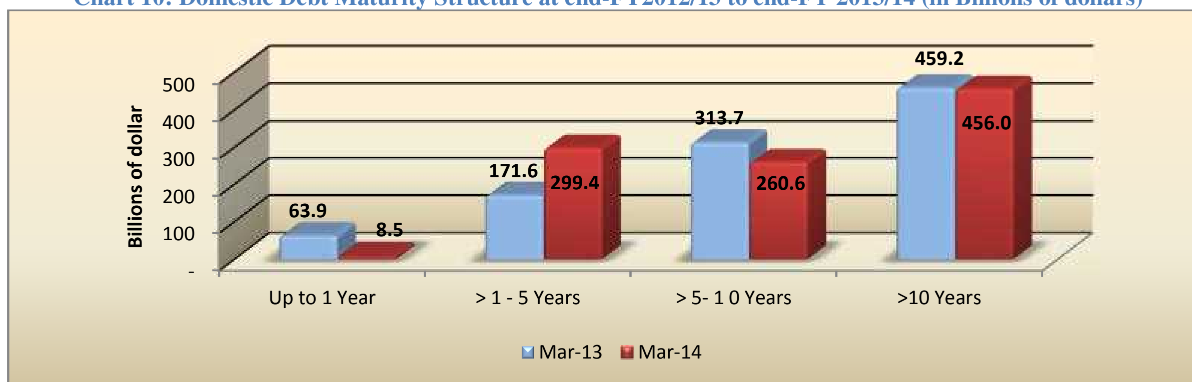


Source: Ministry of Finance and Planning

MATURITY STRUCTURE

Execution of the NDX realigned the maturity structure of the debt, resulting in a significant improvement at the short-end of the curve, which reduced refinancing risk. Debt due to mature within one year declined to $8.5bn at end FY 2013/14 from $63.9bn at end-FY 2012/13. This represented a decrease from 6.3% to 0.8% of total domestic debt. The nominal value of debt maturing in 1-5 years was $299.4bn, in 5-10 years $260.6bn and $456.0bn will mature after 10 years.

Chart 10: Domestic Debt Maturity Structure at end-FY2012/13 to end-FY 2013/14 (in Billions of dollars)



Source: Ministry of Finance and Planning

EXTERNAL DEBT

The external debt financing programme for FY 2013/14 was focused on seeking budgetary support from multilateral institutions. The interest rates on these loans were based on relatively low LIBOR, which facilitated reduced interest costs.

The stock of public and publicly-guaranteed external debt was US$8.4bn ($921.5bn) at end-FY 2013/14, an increase of 3.7% or US$0.3bn over FY 2012/13, as seen in Table 4. The increase was due to positive net flows from official creditors. As a percentage of GDP, the external debt moved from 60.2% at end-FY 2012/13 to 62.5% at end-FY 2013/14.

Table 4: External Debt Composition by Creditor at end-FY2012/13 to end-FY 2013/14 (in Billions of US dollars)

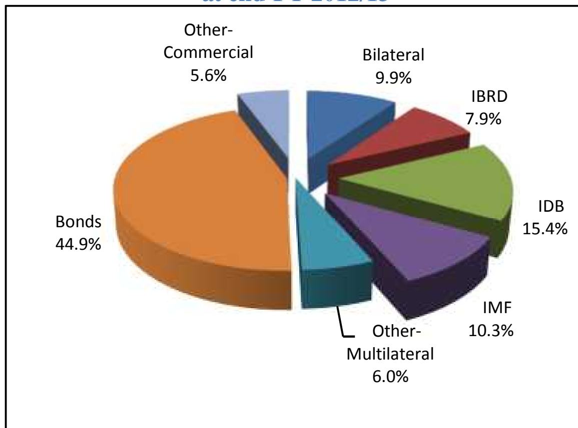
	Mar-13	Mar-14	$ Change	% Change
Total External Debt	**8.1**	**8.4**	**0.3**	**3.7**
Bilateral	0.8	0.8	0.0	0.0
Multilateral	3.2	3.5	0.3	9.4
IBRD	0.6	0.8	0.2	33.3
IDB	1.3	1.4	0.1	7.7
IMF	0.8	0.8	0.0	0.0
Other	0.5	0.5	0.0	0.0
Bonds	3.7	3.6	(0.1)	(2.7)
Other	0.5	0.4	(0.1)	(20.0)

Source: Ministry of Finance and Planning

CREDITOR COMPOSITION

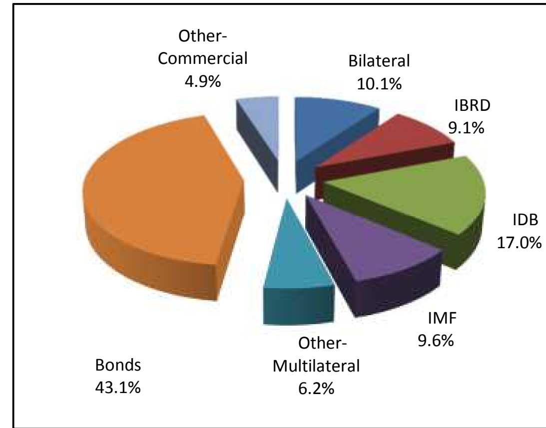
During FY 2013/14, there was a notable shift in the creditor composition of the portfolio. At end-FY 2012/13, private creditors, which include bondholders, represented the largest share of the external debt stock at 50.5%. This category was replaced by official creditors which represented 52.0% at end-FY 2013/14.

Chart 11: External Debt Creditor Composition at end-FY 2012/13



Source: Ministry of Finance and Planning

Chart 12: External Debt Creditor Composition at end-FY 2013/14

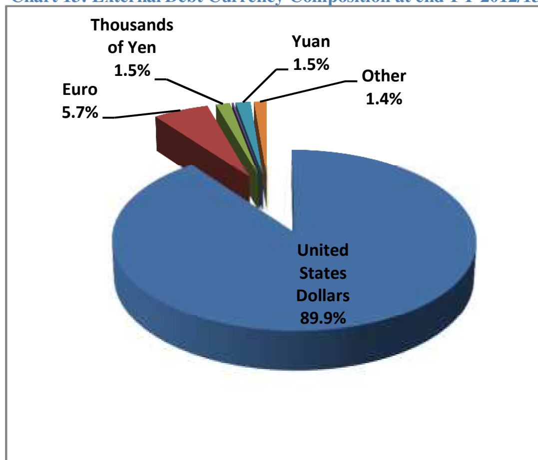


Source: Ministry of Finance and Planning

CURRENCY COMPOSITION

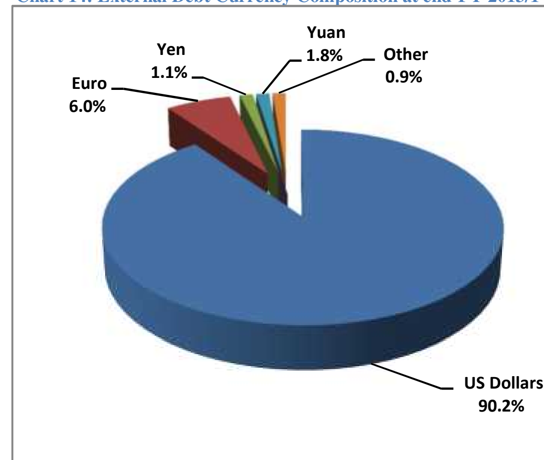
The portfolio comprises the United States dollar, Euro, Japanese Yen, Chinese Renminbi Yuan and Great Britain's pound sterling. The US dollar remained the predominant currency, increasing from 89.3% at end-FY 2012/13 to 90.2% at end-FY 2013/14[4]. The Euro was the second largest at 6.0%. The Yuan increased from 1.5% at end-FY 2012/13 to 1.8% at end-FY 2013/14 as a result of disbursements on project loans.

Chart 13: External Debt Currency Composition at end-FY 2012/13



Source: Ministry of Finance and Planning

Chart 14: External Debt Currency Composition at end-FY 2013/14



Source: Ministry of Finance and Planning

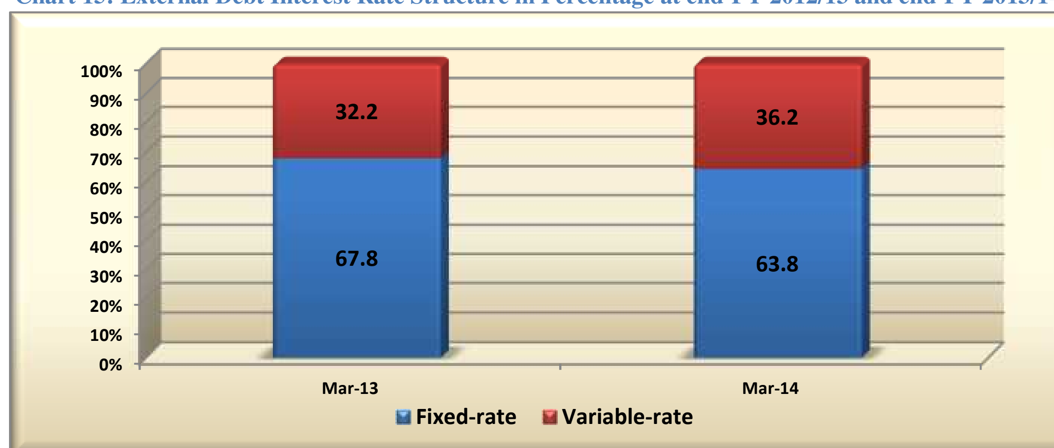
[4] SDR represented 5.91% of the US dollar component

INTEREST RATE STRUCTURE

The external debt continued to be heavily skewed towards fixed-rate debt, thereby ensuring greater predictability in interest cost projections and insulating the portfolio from adverse interest rate movements. Fixed-rate debt was 63.8% at end-FY 2013/14.

Variable interest rate debt exposes the portfolio to changes in international interest rates. During the fiscal year, the US 6-month LIBOR continued on its downward trend, moving from 0.45% p.a to 0.33% p.a. The portfolio benefited from savings as a result of lower interest rates, given that the greater proportion of the variable rate debt is linked to the US LIBOR.

Chart 15: External Debt Interest Rate Structure in Percentage at end-FY 2012/13 and end-FY 2013/14



Source: Ministry of Finance and Planning

MATURITY STRUCTURE

At end-FY 2013/14, there were significant changes in the maturity composition of the debt portfolio. Although the Government successfully contracted new loans at the longer end of the yield curve, it was not enough to negate the significant decline in the segment of maturities over 10 years. The decline resulted mainly from an increase in maturities in the 5-10 years segment.

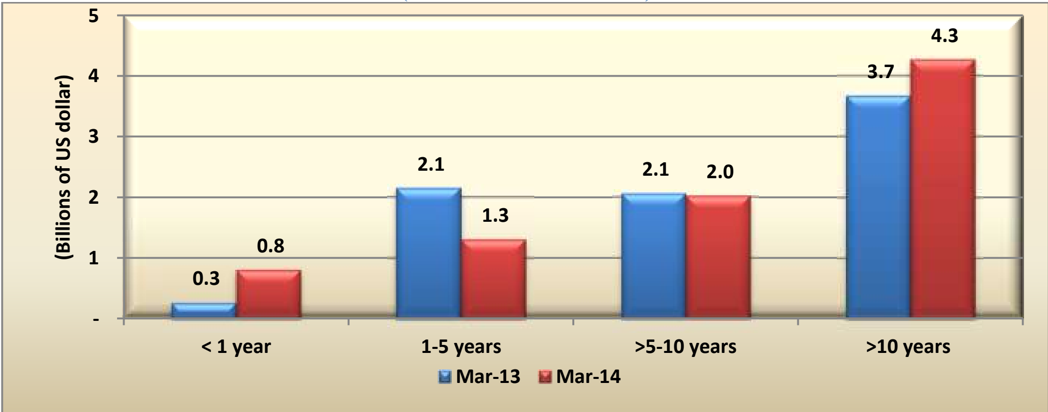
Table 5: Change in External Debt Maturity Structure at end-FY 2012/13 and end-FY 2013/14

	Mar-13		Mar-14		Change	
	US$	%	US$	%	US$	%
< 1 year	0.3	3.3	0.8	9.6	0.5	166.7
1-5 years	2.1	26.3	1.3	15.5	-0.8	-38.1
>5-10 years	2.1	25.3	2.0	24.1	-0.1	-4.8
>10 years	3.7	45.1	4.3	50.8	0.6	16.2

Source: Ministry of Finance and Planning

Maturities greater than 10 years increased from 45.1% at end-FY 2012/13 to 50.8% at end-FY 2013/14. Loans within the segment of 1-5 years in remaining maturity decreased significantly from 26.3% at end-FY 2012/13 to 15.5% at end-FY 2013/14. Debt maturing in less than one year increased from 3.3% at end-FY 2012/13 to 9.6% at end-FY 2013/14, this is primarily due to the upcoming maturity of Euro 150mn 10.5% Bond.

Chart 16: External Debt Remaining Maturity Structure at end-FY 2012/13 and end-March 2013/14 (in Billions of US Dollar)

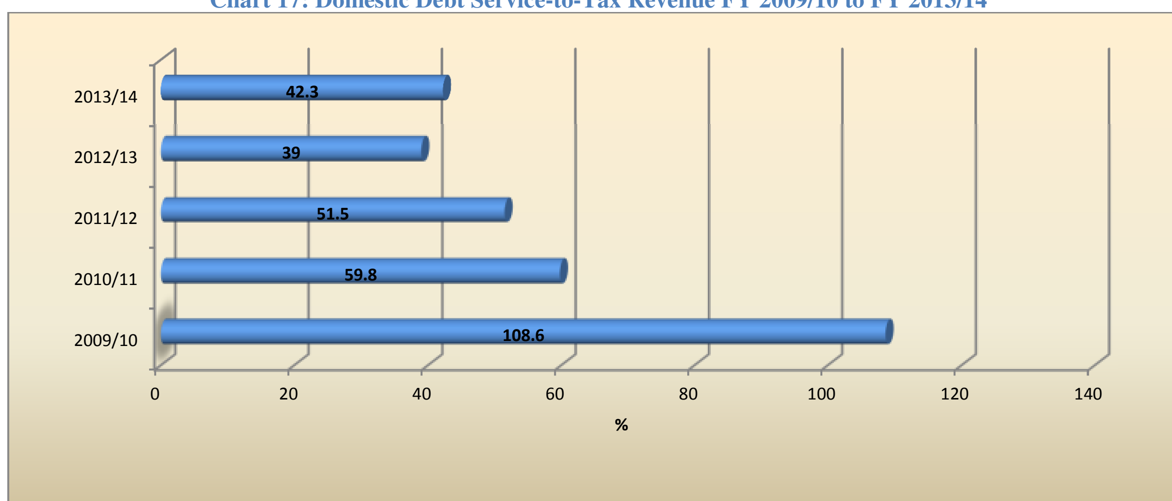


Source: Ministry of Finance and Planning

DEBT SERVICE

Debt service has declined over the past five years. The nominal decrease in debt service was primarily attributed to relatively low domestic interest rates and US LIBOR, and the execution of the NDX.

Chart 17: Domestic Debt Service-to-Tax Revenue FY 2009/10 to FY 2013/14



Source: Ministry of Finance and Planning

Domestic debt service as a proportion of tax revenue was at its highest at 108.6% at end-FY 2009/10 and declined to 42.3% at end-FY 2013/14.

For FY 2009/10 to FY2013/14, external debt service as a percentage of exports of goods and services and current transfers increased from 12.6% to 16.3%. This ratio peaked at 18.5% in FY 2011/12, due to the maturity of the US$400mn Global Bond in May 2011.

During FY 2009/10 to FY 2013/14, there were improvements in debt service indicators. This resulted from:

- The execution of two liability management exercises, which reduced the interest cost on the domestic debt, and smoothed the maturity profile; and
- Improved GOJ fiscal operations resulting in improved fiscal balances.

Debt service ratios have been improving over the review period. Debt service to Budget decreased from 59.7% at end-FY 2009/10 to 44.0% at end-FY 2013/14 mainly influenced by

reduction in interest costs. This also resulted in similar movements in the total interest to GDP ratio, as seen in Table 6.

Table 6: Debt Service Indicators end-FY 2009/10 to end-FY 2013/14

	2009/10	2010/11	2011/12	2012/13	2013/14
Debt service/GDP	32.8%	19.7%	19.8%	16.1%	14.7%
Debt service/Budget	59.7%	43.6%	51.3%	44.0%	44.0%
Debt service/Tax revenue	134.7%	82.4%	85.9%	67.3%	63.0%
Total interest/GDP	17.3%	10.9%	9.6%	9.5%	7.5%
Interest Cost/Total Expenditure	44.8%	33.0%	29.9%	31.8%	27.4%
External Debt Service/Exports of Goods and Services, Current Transfers	12.6%	12.2%	18.5%	15.4%	16.3%

Source: Ministry of Finance and Planning

MARKET DEVELOPMENTS

INTRODUCTION

The effect of changes in macroeconomic variables, particularly interest and exchange rates, have a significant impact on the debt portfolio. Developments in the domestic and international economies which impact interest and exchange rates are therefore closely monitored by GOJ. Changes in domestic Treasury Bill yields and LIBOR affect the cost of existing and new loans while changes in the exchange rate of the domestic currency vis-à-vis other currencies, such as the US dollar, impact foreign currency debt servicing cost and the debt stock. US Treasury yields are closely observed by stakeholders in the ICM, as they are used as signal rates for US LIBOR and other market reference rates.

BANK OF JAMAICA ACTIVITIES

The Bank of Jamaica (BOJ) played a significant role in money market operations during FY 2013/14, in contrast to FY 2012/13 when the bank intervened less in the market. During FY 2012/13, outside of its normal issuances for open market operations (OMO), only three additional variable-rate instruments were issued. Despite relatively low liquidity levels throughout FY 2013/14, the BOJ remained active in the money market. This was undertaken through the issuance of regular OMO instruments, complemented by the issuance of several other instruments. In addition to the regular 30-day Certificates of Deposit (CD), the bank issued US-dollar denominated, US-dollar Indexed and other instruments with relatively long tenors.

Towards the end of the previous fiscal year, the interest rate on the BOJ 30-day CD—the BOJ's main signal rate—was reduced by 50 basis points to 5.75% and remained flat throughout FY 2013/14. This was done in an effort to bolster economic recovery, as the pass-through effect of depreciation of the domestic currency was subdued due to relatively weak domestic demand. BOJ also maintained the 0.25% rate on its overnight instruments.

At the start of the first quarter, liquidity levels were low due to relatively low levels of OMO maturities. Additionally, as a result of the NDX, the tenors of short term instruments were extended resulting in a reduction in the expected liquidity in the market. Despite this, throughout the quarter, the BOJ's menu of instruments was issued in addition to nine new variable-rate securities, ranging in tenors from 180 days to 18 months and two one-year fixed rate US-dollar indexed notes.

During the second quarter, in keeping with monetary policy objectives, the BOJ issued several variable rate CDs which ranged in tenors from 273 to 365 days. These were issued in addition to BOJ's main OMO instruments. This policy action by the Bank further reduced liquidity levels. As a result, a 14-day Repurchase agreement (Repo) was introduced to provide liquidity on a regular basis. Although this resulted in a net injection of liquidity into the system, liquidity levels remained relatively low.

Tight liquidity conditions prevailed into the third and fourth quarters while the domestic currency depreciated at faster rates relative to previous periods. Against this background, the

BOJ continued injecting liquidity into the system by maintaining a 14-day Repo arrangement with financial institutions, and introduced a Standing Liquidity Facility (SLF) towards the end of the quarter. At the same time, the Bank continued issuing new instruments including fixed rate US dollar-indexed notes and BOJ USD CDs which ranged in tenors from 365 days to 4 years. The SLF provides financial institutions with automatic access to overnight liquidity, as required, through an overnight repo.

Arising from low liquidity conditions throughout the fiscal year, the BOJ introduced the SLF to alleviate the shortage of funds experienced by banks in an effort to assist in normalising operations. While the Bank maintained its signal rates throughout the fiscal year, the prevailing low liquidity conditions contributed to an increase in the yields on GOJ Treasury Bills.

INTEREST RATES

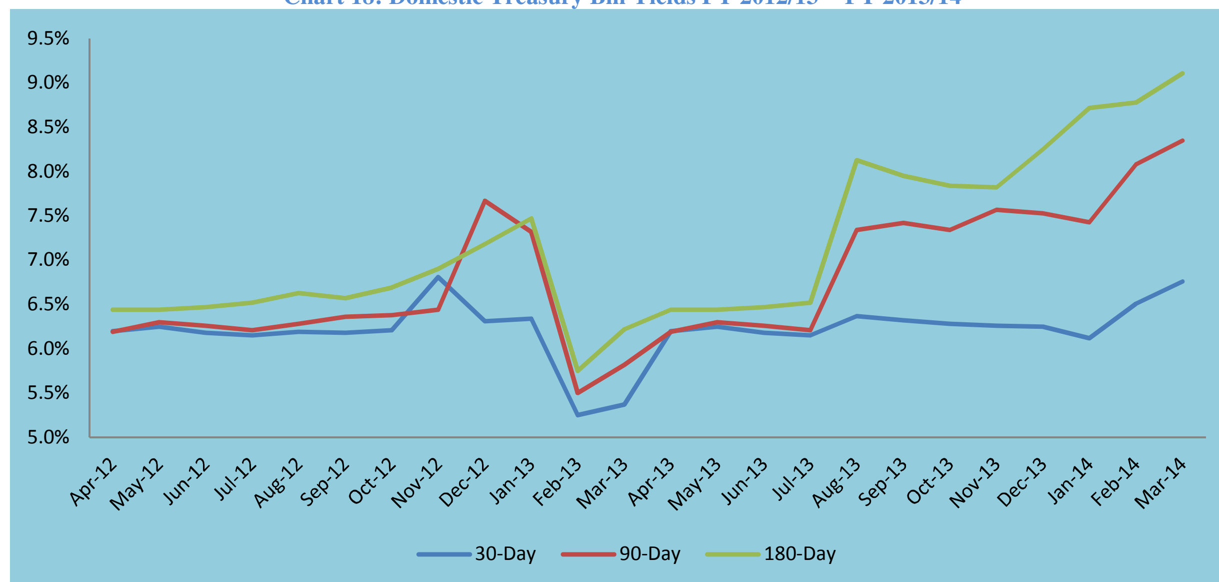
DOMESTIC MARKET INTEREST RATES

At end-March 2014, domestic interest rates in the form of the 30-, 90- and 180-day Treasury Bill yields were 6.76% p.a., 8.35% p.a. and 9.11% p.a., which reflected increases of 139, 253 and 289 bps, respectively, relative to end-March 2013. At end-March 2014, spreads between the 30- and 90-day and 30- and 180-day Treasury Bills were 159 and 235 bps compared to 45 and 85 bps, respectively, at end-March 2013. The increase in yields and spreads reflected tight liquidity conditions in the domestic money market, as well as depreciation of the local currency.

Prior to the start of the fiscal year and at the close of the NDX, in February 2013, yields on the 30-, 90- and 180-day Treasury Bills fell by 109, 182 and 172 bps, respectively, relative to the previous month. The change in yields mirrored renewed confidence by investors in regard to a more stable macroeconomic outlook, as the Government was in the process of completing the agreement with the IMF. However, some of the gains were reversed by the start of the fiscal year (April 2013), as yields on the 30-, 90-, and 180- day Treasury Bills increased by 12, 32 and 47 bps, respectively, over February. This reflected tighter liquidity conditions due to actions by the Central Bank to sterilize money supply, as well as the delay in the Government concluding the arrangement with the IMF. For the remainder of the fiscal year liquidity conditions remained very tight. Yields increased at a fast pace during the second quarter, as reflected in the sharp rise

in Treasury Bill yields in August. However, the rate of increase in all categories of instruments slowed during the third and fourth quarters, see Chart 18.

Chart 18: Domestic Treasury Bill Yields FY 2012/13 - FY 2013/14



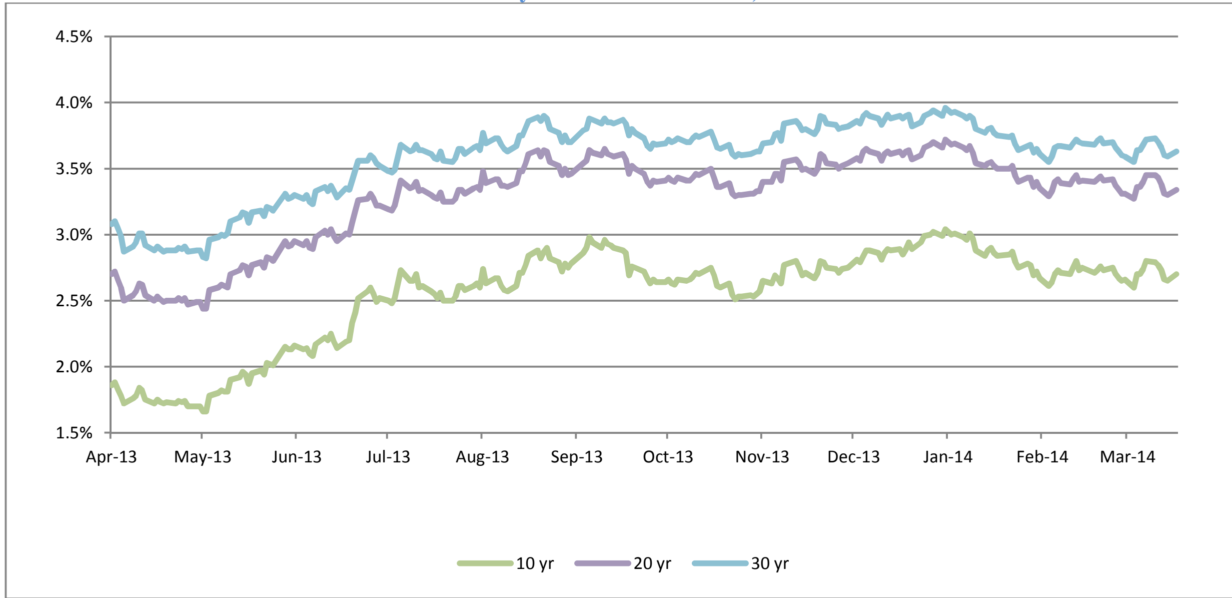
Source: Bank of Jamaica

US TREASURY RATES

During FY 2013/14, 1-month and 6-month US Treasury Bill yields remained relatively flat, averaging 0.50% and 0.12%, respectively. The 1- and 6-month Treasury Bills were at maximum levels between October 8 and October 15, 2013. At the time there was nervousness in the market due to speculation of a default by the US government consequent on an impasse with respect to raising the debt ceiling. The rates reverted to normal levels in the following weeks as investors regained confidence in the US government's ability to meet debt obligations.

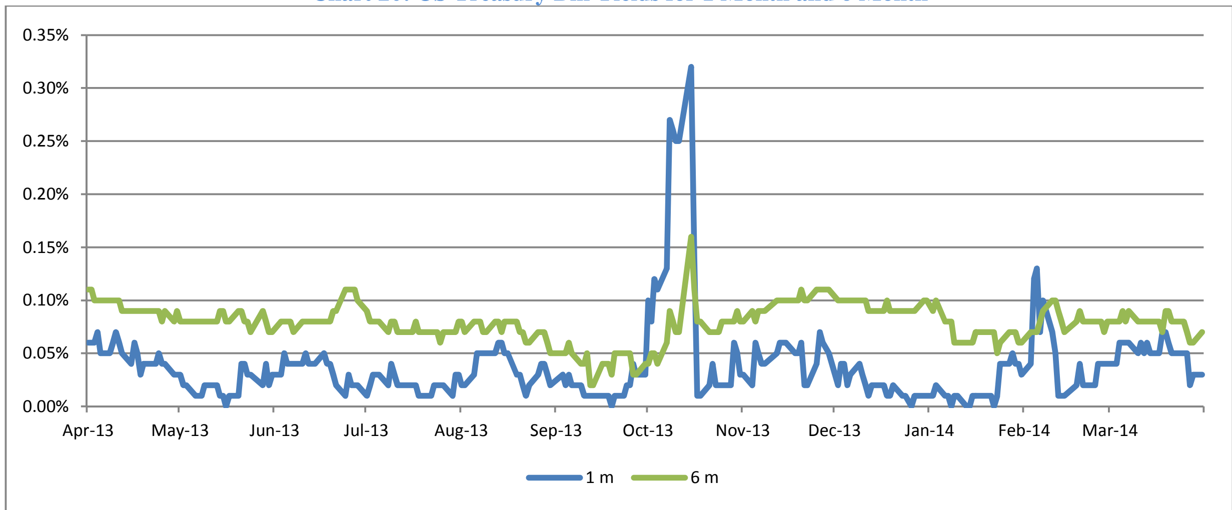
The yields on the longer tenor instruments increased during the review period. The 10-, 20- and 30-year notes started the period at 1.86% p.a., 2.70% p.a. and 3.08% p.a., respectively. Towards the end of the fiscal year the rates were 2.73% p.a., 3.31% p.a. and 3.56% p.a., respectively. The main contributing factor to the movement in rates was the FED's decision to reduce the volume of its asset buy-back programme in the future, which was announced in June, September and December. This resulted in a spike in yields which subsequently leveled off. Yields on all instruments were relatively stable from January to March 2014 compared to previous periods.

Chart 19: US Treasury Bill Yields for 10 YR, 20 YR and 30 YR



Source: US Department of the Treasury

Chart 20: US Treasury Bill Yields for 1 Month and 6 Month

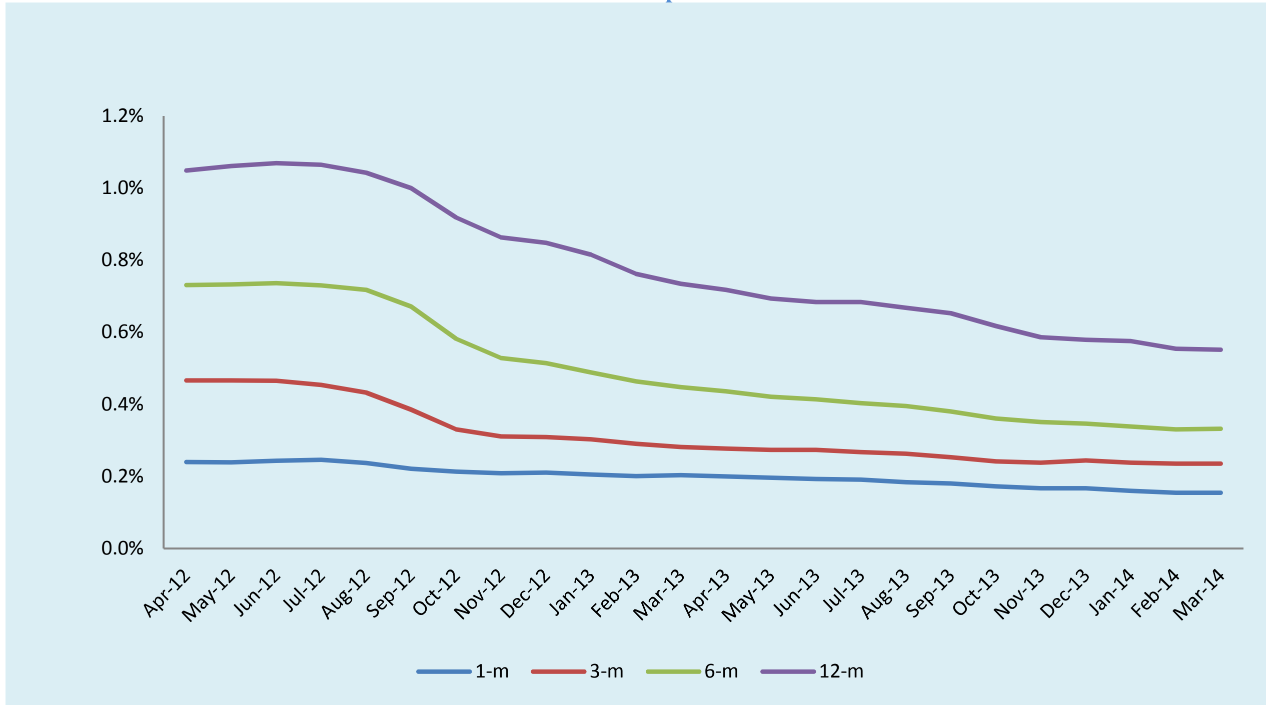


Source: US Department of the Treasury

US LIBOR

During FY 2013/14, US LIBOR continued its downward trajectory, which began in 2008-09 following the world economic crisis that had its genesis in the US subprime mortgage imbroglio. The continued tepid economic recovery and accommodating monetary policies in North America and Europe contributed to the downward trend in LIBOR. At March 2014, the rate was lower and spreads had narrowed relative to March 2013, as seen in Chart 21.

Chart 21: US LIBOR Rates April 2012 - March 2014

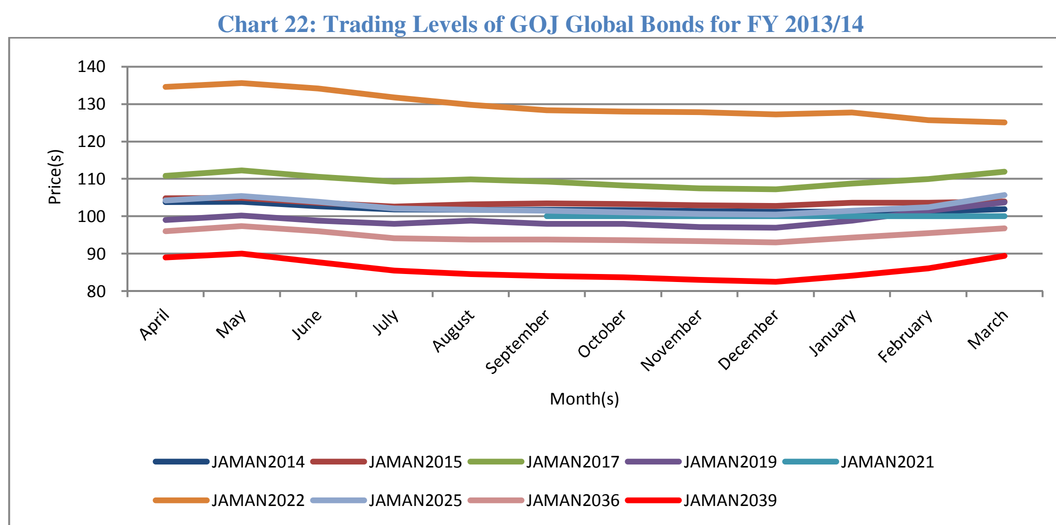


Source: www.fedprimerate.com

REVIEW OF TRADING LEVELS FOR GOJ GLOBAL BONDS

During FY 2013/14, trading levels for GOJ Global Bonds showed moderate fluctuations. In the first quarter, the slight uptick in bond prices which began towards the end of FY 2012/13 continued in April and May. Despite the initial upturn, by the close of the quarter, prices started to decline then remained relatively flat throughout the mid-quarters of the year. In the final quarter of the fiscal year, there was some improvement as bond prices trended upwards. These movements in trading levels reflected the general risk aversion that emerged at the onset of the global financial crisis. Additionally, the country's rating upgrades predicated on improvements in the macro-economy, coupled with structural reforms and the IMF Programme led to an improvement in trading levels.

Chart 22: Trading Levels of GOJ Global Bonds for FY 2013/14



Source: Bloomberg

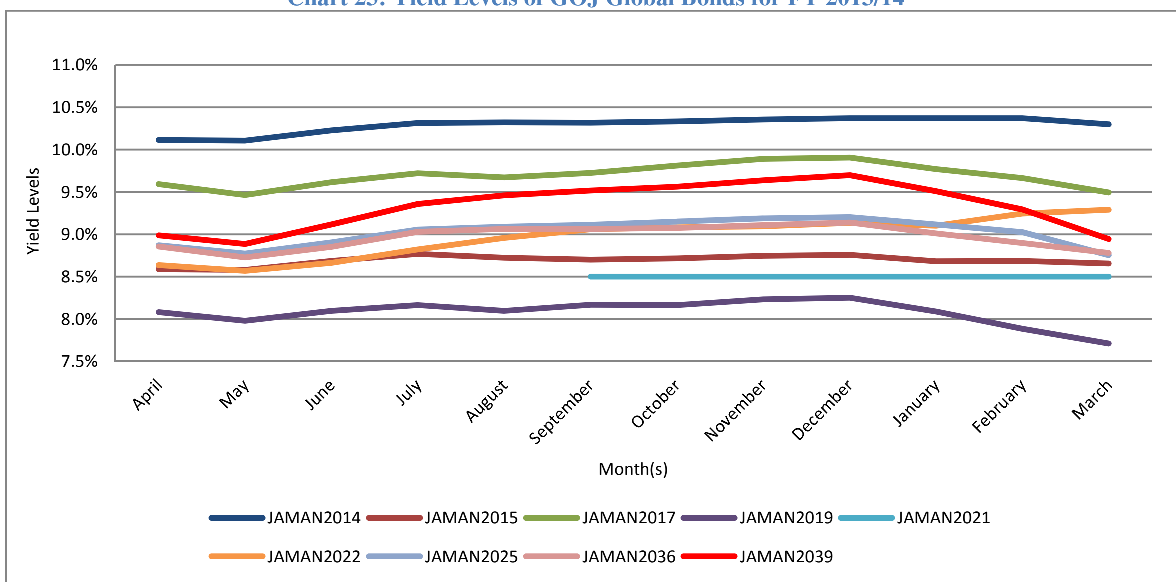
At the start of the fiscal year the GOJ had eight bonds trading. However, by end-March 2014, this increased to nine (9) bonds due to the GOJ assumption of CAP Bond 2021 in September 2013, through its conversion to JAMAN 2021 Global Bond. This bond entered the trading platform on September 6, 2013 at par and has not been actively traded. Of the eight (8) bonds that were in existence at the beginning five (5) traded above par, increasing to six (6) by year end. Sovereign bond JAMAN 2019 started the year trading marginally below par at an average price of 99.0 before closing the year at premium for an average price of 103.73. The other two bonds traded at a discount throughout the year.

Meanwhile, JAMAN 2022 and JAMAN 2017 continued to be traded significantly above par at average rates of 125.13 and 111.92, respectively. The price levels for the other three bonds remained moderately above par.

The bid and ask spread price is the variation between ask and bid prices, and is a measure of liquidity, determined by the demand and supply levels of the bonds. Average values ranged from 1.70 - 3.14. The highest-priced bond, JAMAN 2022 had the highest average spread of 3.14, while JAMAN 2017, the next best-priced bond, had an average spread of 1.70, the lowest spread in the portfolio. Overall, the spread levels for most of the bonds were just below 2.00, which is indicative of the levels of demand and supply volumes. Another indicator of liquidity is price resilience, which measures how quickly the price of a bond reverts to former levels after trading downwards. On the whole, GOJ bonds did not exhibit much price resilience over the period.

In general, bond performance over the fiscal year mirrored the risk aversion among investors, due to the uncertainty that prevailed in the markets against the backdrop of US economic indicators and Jamaica's Memorandum of Economic and Financial Policies (MEFP) medium-term economic plan. Despite this, as the recession eased in the USA and Europe, and economic activities gained momentum, especially during the final quarter of the fiscal year, there was an upswing in trading activities as investor confidence and appetite for risks slowly returned.

Chart 23: Yield Levels of GOJ Global Bonds for FY 2013/14



Source: Bloomberg

CAP DEBT EXCHANGE

The Government of Jamaica, in its role as Guarantor, assumed debt obligations owed by Clarendon Alumina Production Limited (CAP) to holders of 8.50% Amortising Notes due 2021 effective September 3, 2013. This was done by successfully completing a Consent Solicitation and Exchange Offer which amended certain provisions in the 2006 fiscal agency agreement under which the CAP Notes were originally issued.

The amendments removed any claim on the assets of CAP, thereby making them free and clear of being called upon in case of any default or breach of contract by changing the terms of reference of the liabilities from CAP to GOJ. Ultimately, the amendments allow CAP to use its 45.0% undivided interest as co-tenant in the assets of JAMALCO as security for a financing arrangement that the company entered into with Noble Resources. Under this financing arrangement, until all funds have been repaid to Noble, CAP granted Noble an option to purchase its interest in JAMALCO.

The outstanding principal of US$161.9mn in CAP Notes was exchanged for 2021 Jamaica Notes. The official assumption of CAP bonds by the Government did not increase the total debt, as the definition of public debt includes external guaranteed debt and the debt was therefore already recorded as part of the public debt stock.

The terms of the 2021 Jamaica Notes are similar to the old CAP notes. They are direct, general, unsecured and unconditional obligations of Jamaica, ranked *parri passu* with all existing and future unsecured external debt and paying semi-annual coupon of 8.50% per annum. At each interest payment, principal is amortised at a rate of 5.882353% of the original amount.

CREDIT RATINGS

Assigning credit ratings to a sovereign involves the assessment of several factors which indicate not only ability, but also willingness of the sovereign to repay its debt. These include, but are not limited to, growth prospects, stability of the financial sector, effectiveness of monetary policy, debt burden (debt-to-GDP), amount of external debt, contingent liabilities, and political risk. Investors use sovereign credit ratings to inform their investment decisions based on their risk appetite.

In FY 2013/14, Jamaica's credit worthiness was assessed by three agencies. In September 2013 and February 2014, S&P and Fitch upgraded Jamaica's credit rating from 'CCC' and 'CCC+', respectively to 'B-'. Moody's, in February 2014, affirmed the Sovereign's Caa3 credit rating while upgrading the outlook from "stable" to "positive". The rating upgrades were predicated on the country's performance under the EFF which was demonstrated by the country's ability to:

- Preserve broad macroeconomic and financial stability;
- Reduce financing risks due to fiscal consolidation;
- Lengthen domestic debt repayments, achieved under the NDX; and
- Access financial support from official creditors.

Additionally, the agencies expressed favourable expectations that the country, having met its quantitative targets for two successful IMF reviews, will continue to do so.

Table 7: Jamaica's Credit Ratings during FY 2013/14

Risk agency	Term	Rating Action	Prior Rating	Outlook	Last Rating Action
Standard & Poor's Ratings Services	Long-Term/Short-term Foreign and Local Currency	B-/B	CCC+/Stable	Stable	September 25, 2013
Moody's Investor Service	Government debt	Caa3	Caa3(**Stable** outlook)	Positive	February 12, 2014
Fitch Ratings	Long term foreign and Local currency issuer	B-	CCC/Stable	Stable	February 25, 2014

The rating reviews were underpinned by (i) the Government’s commitment to maintaining fiscal discipline (ii) the "on track" agreement with the IMF; (iii) the country’s unwavering commitment to reducing the debt-to-GDP ratio, and (iv) the country's political stability.

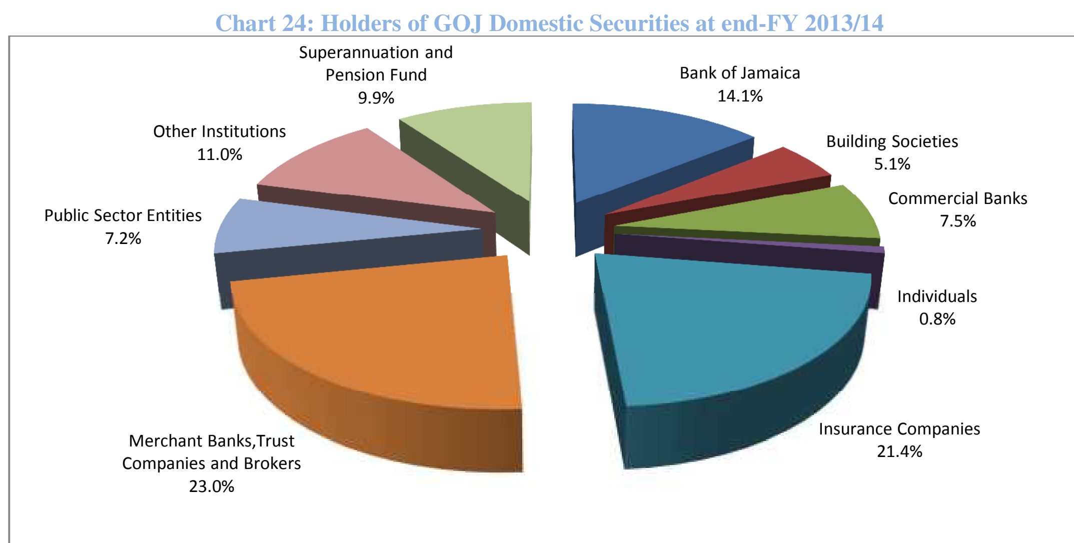
The rating agencies indicate that further positive ratings could occur if the country experiences higher economic growth, improved fiscal performances leading to an increased rate of debt reduction and reduced exposure to external vulnerabilities.

INVESTOR BASE

Over the years, the GOJ has realized its goal of diversifying the investor base, as well as satisfying the demand of bondholders. The holdings of government securities are analysed in terms of the major holders, the maturity structure and the interest rate preferences for each category of investor.

Merchant Banks, Trust Companies and Brokers were major holders of GOJ securities accounting for 23.0%. In addition, Insurance companies' holdings constituted 21.4%, which was followed by the Bank of Jamaica and other public sector entities which accounted for 21.3% and Other Institutions which comprised 11.0%.

Chart 24: Holders of GOJ Domestic Securities at end-FY 2013/14



Source: Ministry of Finance and Planning

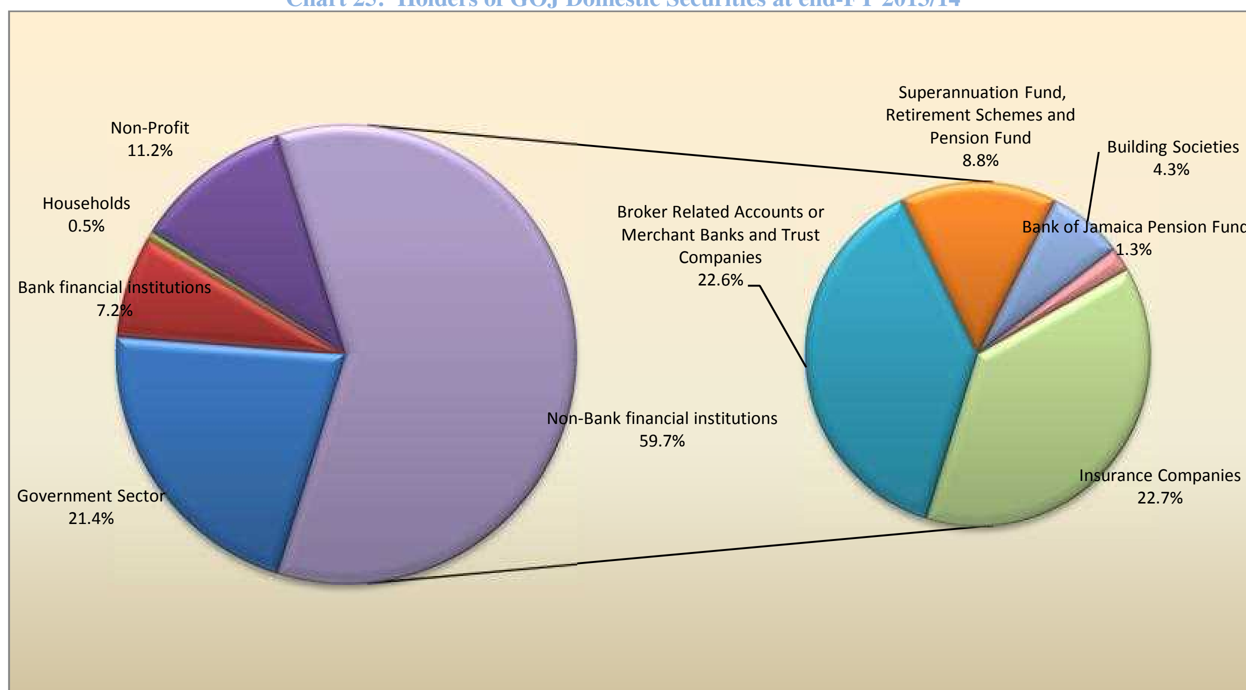
The investor base for the domestic securities is classified into the following five categories, see Appendix II:

- Government sector;
- Non-bank financial institutions;
- Bank financial institutions;
- Households; and
- Non-profit organisations.

At end-FY 2013/14, non-bank financial institutions remained the major holders at 59.7% of the domestic securities. Within the category of non-bank financial institutions, the sub-category of

life insurance companies represents 22.7% of the Jamaica dollar Benchmark Notes, closely followed by merchant banks and trust companies at 22.6%. Bank financial institutions represented 7.2% and household investors accounted for the smallest share at 0.5%.

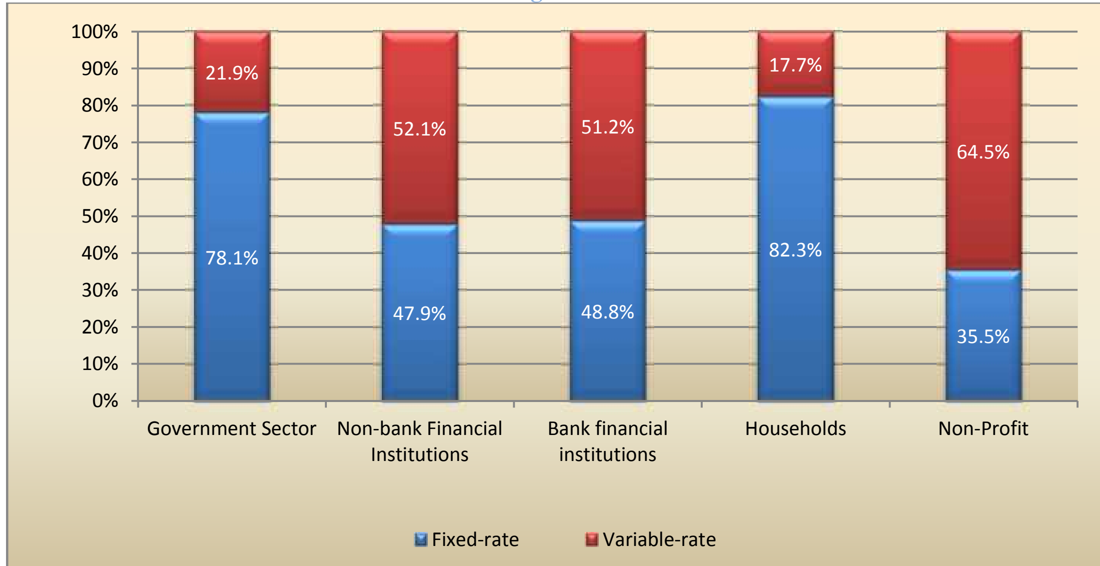
Chart 25: Holders of GOJ Domestic Securities at end-FY 2013/14



Source: Ministry of Finance and Planning

Chart 26 indicates the holding by interest rate type. Composition of the holdings by interest rate type mirrors the interest rate structure of the debt which is skewed towards fixed-rate debt and which currently represents in excess of 60.0% of the portfolio. All investor types demonstrated a preference for fixed-rate instruments, particularly households and government institutions whose holdings consisted of 80.0% and 75.0% fixed-rate instruments, respectively. Likewise, variable rate instruments are also distributed across all investor types, but non-profit institutions showed a preference for this structure, holding over 50.0% variable rate instruments within their portfolio. Banks and non-bank financial institutions sought to maintain a balanced position and opted to hold an equal share of fixed- and variable-rate instruments.

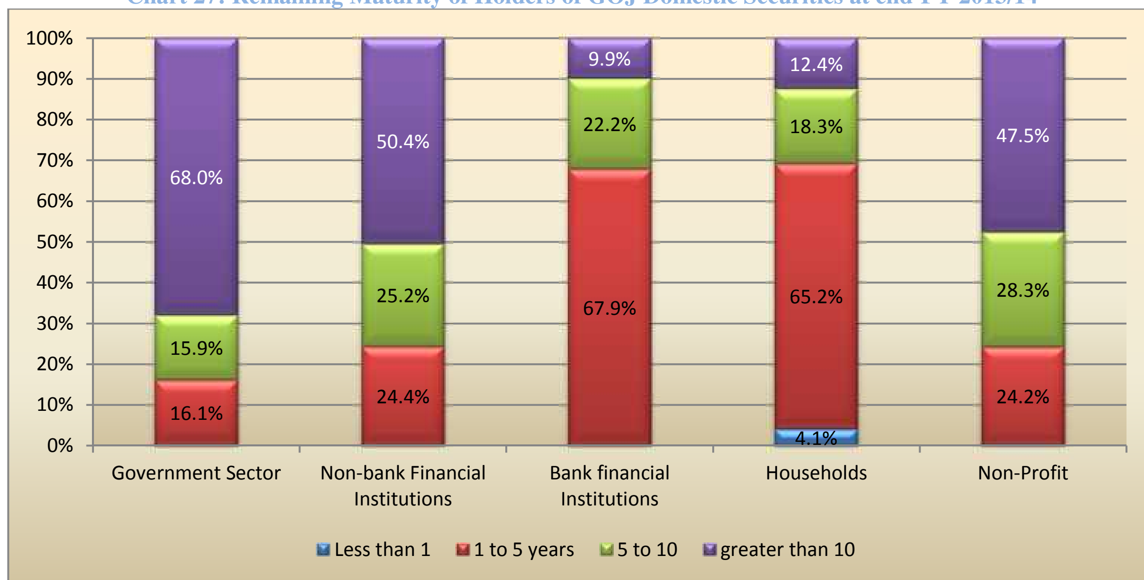
Chart 26: Interest Rate Structure of Holdings of Domestic GOJ Securities at end-FY 2013/14



Source: Ministry of Finance and Planning

The maturity profile, when analysed in terms of the holders of the debt, indicates that long-term instruments with remaining maturities greater than 10 years are held primarily by non-bank financial institutions, which include pension funds and insurance companies, as well as government institutions. The holdings of these institutions represent between 50.4% – 68.0% of their total portfolio in government securities. The Household portfolio comprises 65.2% benchmark bonds with 1-5 years remaining maturity.

Chart 27: Remaining Maturity of Holders of GOJ Domestic Securities at end-FY 2013/14



Source: Ministry of Finance and Planning

MONITORING AND DISBURSEMENT REPORT

PROJECT DEVELOPMENT

Jamaica, as a developing country, with the objectives of achieving sustained economic growth, developing infrastructure, improving social safety nets and protecting the environment, continues to partner primarily with official creditors through loan and grant financing for projects.

The DMB has responsibility for ensuring that grant/loan funded projects receive timely inflows from donors and creditors in line with budgeted allocations. This involves managing the internal controls, procedures and disbursements of grants and loans through effective monitoring of the financial aspects of the projects being implemented by the various Ministries, Departments and Agencies (MDAs).

The Inter-American Development Bank (IDB), the Caribbean Development Bank (CDB), the International Bank for Reconstruction and Development (IBRD/World Bank), the European Union (EU) and China continue to be Jamaica's major development partners accounting for 93.0% of the project portfolio.

During FY 2013/14, the Government of Jamaica received loan and grant inflows totaling US$0.5bn and US$0.1bn respectively, from official creditors. In keeping with the Government's overarching strategy of accelerating economic growth, a total of 14 agreements were signed during the year.

MONITORING

During FY 2013/14, there was moderate improvement and measured success in GOJ project implementation. Notwithstanding, the DMB aims to further strengthen the monitoring aspect to mitigate against any significant delays that may present challenges in the timeliness of the project execution and utilisation rate. Any significant delay will impact the projects' utilisation rate which has wider implications for GOJ, particularly in regard to the allocation of resources within the context of tight fiscal space. Low utilisation rates for some projects hamper the allocation of funding to other projects. Additionally, delays in project execution will be costly to

the GOJ in terms of commitment fees on undisbursed loan balances, as well as interest costs on the disbursed and under-utilised portion of the loans.

For FY 2013/14, the average utilisation rate for projects was 22.7% compared to 11.5% in FY 2012/13. The improvement was due to greater coordination with all stakeholders. The DMB has been working closely with internal and external stakeholders to ameliorate any challenges faced by projects. This has translated into:

- Improvements in the turn-around time of meeting conditions for loan effectiveness;
- More efficient management of the justification for disbursements; and
- An acceleration of the utilisation rate.

GRANTS

The grant portfolio is diverse and can advance significant progress in the development of the economy if the resources are utilised in accordance with the objectives for each project. The assistance received under this portfolio covers a broad spectrum of projects such as infrastructure development, crime reduction, poverty alleviation and climate change. The EU continues to be the dominant donor in grant aid to Jamaica; Department for International Development, the second leading donor. Other key partners include the IDB, IBRD, CDB, and United States Agency for International Development.

The EU has consistently provided grant funds for poverty alleviation. Supporting this mandate of poverty alleviation, the GOJ remains committed to the most vulnerable in society through the implementation of aid projects such as social protection and poverty reduction programmes.

With the technical assistance of donor agencies and creditors, the DMB is fully committed to continue lending support to the MDAs through dialogue, face-to-face meetings and seminars to ensure the most appropriate strategies are utilised.

The DMB will continue to engage its stakeholders as well as build capacity to ensure that all participants of grant/loan funded projects are well-informed of the importance of project planning, cost control, timely implementation of projects, the effects on future grant funding and the implications for the Government's objectives.

DEBT MANAGEMENT SYSTEMS SUPPORT

MEDIUM TERM DEBT MANAGEMENT STRATEGY (MTDS) TOOLKIT

The development of the GOJ's MTDS is one of the main responsibilities of the Risk Analysis Unit in the DMB. It is primarily focused on determining the appropriate composition of the public debt portfolio, taking into consideration macroeconomic factors, capital market developments and the cost/risk trade-offs. For the past four (4) years, the DMB has utilised the MTDS Toolkit developed jointly by the World Bank and the IMF to assess the cost and risk trade-offs between different strategies under consideration. The toolkit guides the selection of a strategy which is deemed optimal and will allow the DMB to fulfill the mandate of raising the appropriate level of financing for the Government at minimum cost and at an acceptable level of risk.

Towards this end, the Toolkit has assisted the DMB, and by extension the GOJ, to utilise an objective means to compare and assess alternative debt management strategies, and to select one which is in keeping with the mandate of minimising the cost of funding the Budget at a prudent level of risk. The DMB staff has benefited from MTDS toolkit related training.

COMMONWEALTH SECRETARIAT DEBT RECORDING AND MANAGEMENT SYSTEM

Jamaica has utilised the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) since its inception in 1985. The system is used to record, monitor and analyse the public debt. It provides assistance in debt compilation and review of the quality of the databases.

The CS-DRMS software is a reporting and analytical tool which, *inter alia,* assists in ensuring that the flows of loans and grants are properly recorded throughout the lifecycle of the loans. It has the capability to produce over 60 standard reports for various data requirements, including debt service and budget projections. The system has querying and reporting facilities, as well as a custom built report generator that allows users to write their own reports. CS-DRMS can also provide management reports which can alert the debt manager to warning signals to assist in portfolio analysis and sensitivity testing for risk management.

The application provides a central warehouse for several categories of public and privately secured external and domestic debt. The system is regularly upgraded to reflect changes in instrument types, creditor practices, debt reporting standards, and technology in order to represent best practice in debt-management. Both actual and forecasted transactions data as well as that on arrears are captured in a manner that meets the international debt data guidelines.

DEVELOPMENT OF THE SYSTEM AND THE WAY FORWARD

The DMB is currently using Version 1.3 of the CS-DRMS 2000+ (Windows-based) software, which has been recently upgraded to CS-DRMS 2000+Version 2 to include a domestic debt analytical module and auction module. Some recent enhancements are:

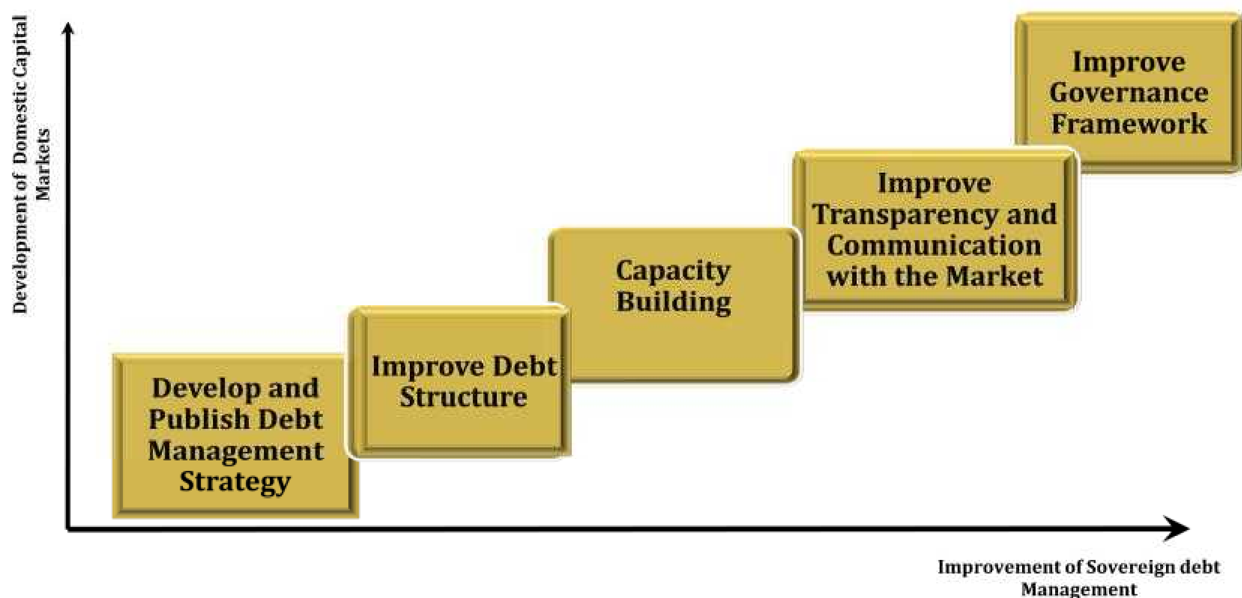
(a) A new lending module;
(b) A new billing module, which tracks the debt service cycle and improves accuracy of the system;
(c) New data export templates; and
(d) A portfolio analyser tool.

Over the years DMB staff have benefited from CS-DRMS training.

INSTITUTIONAL DEVELOPMENTS

During FY 2013/14, DMB continued its efforts to improve debt management procedures, instruments and operations to support the mandate of raising adequate budgetary financing taking into account acceptable cost/risk tradeoffs. This section addresses the progress made in the area of restructuring and staffing to align operations along the functional lines of the Front, Middle and Back Office model in keeping with international best practices.

Figure 4: Institutional Developments



Additionally, for the period under review, the team participated in events and activities geared towards building capacity and strengthening relationships with investors and other stakeholders.

PUBLIC DEBT MANAGEMENT LEGISLATIVE AGENDA

In February 2014, a World Bank mission visited Jamaica to meet with officials of the DMB to assist with the development of the debt management regulations and review the debt management legislative framework. The mission was a part of the World Bank's Institutional Capacity Building in Public Debt Management programme to strengthen the effectiveness of public debt management.

IX ANNUAL MEETING OF LATIN AMERICAN AND THE CARIBBEAN PUBLIC DEBT MANAGEMENT SPECIALISTS

Jamaica was represented at the IX Annual Meeting of the LAC DEBT GROUP from June 12-14, 2013, in Lima, Peru by a DMB representative. The meeting provides a forum where debt management specialists share experiences and knowledge on best practices to strengthen the capacity of governments to manage public debt and foster better debt management practices.

CARIBBEAN ASSOCIATION OF DEBT MANAGERS (CARADEM)

On June 17-18, 2013, the Government of Jamaica and the Commonwealth Secretariat jointly hosted the third annual forum of the CARADEM. Representatives from ten (10) member countries inclusive of two (2) persons from the DMB attended the forum held in Rose Hall, Montego Bay, Jamaica.

Under the theme "**Managing Debt Under Financial Distress**", Dr. the Hon. Peter Phillips delivered the Keynote Address and a Debt Management Branch representative presented the Annual Report. Jamaica held the presidency of the Association at the time.

CARADEM was formed to consider best practices and regional solutions as well as help strengthen technical capabilities for more effective debt management within the context of increased fiscal discipline. Member countries include: Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and the Turks and Caicos Islands.

MEETING WITH DOMESTIC MARKET STAKEHOLDERS

On August 30, 2013, the Ministry of Finance and Planning inclusive of DMB representation met with domestic market stakeholders to discuss matters in relation to the development of the domestic capital market, concerns of the securities dealers and the development of a framework for the way forward. The World Bank made a presentation on the progress achieved under the Institutional Capacity Building for Debt Management programme.

The DMB initiated the meeting against the background of implementing an effective investor relations programme to improve the working relationships with key stakeholders.

PUBLIC DEBT MANAGEMENT GUIDELINES (PDMG)

The Debt Management Branch represented Jamaica at the IMF/WORLD BANK's 2nd Consultative Meeting on the Guidelines for Public Debt Management in Washington, DC on October 15, 2013, to review and update the PDMG to ensure continued relevance and credibility. The First Meeting, attended by 45 policymakers from 31 countries, was held on June 19, 2013.

The guidelines, geared towards debt managers, are designed to assist policymakers in making informed decisions on reforms and international best practices to strengthen the quality of public debt management.

LAC DEBT GROUP

The DMB participated in the VIIth Thematic Workshop of the LAC Debt Group held from October 7 – 8, 2013, in Washington, DC. The two-day workshop was an initiative that formed part of the IDB support provided to facilitate technical discussions, and strengthen the capacity of governments to manage public debt and foster better debt management practices through the continuous sharing of experiences across countries.

There were participants from twenty-two (22) nations: sixteen (16) from the Latin American region and six (6) Caribbean countries.

DMB REORGANISATION UPDATE

In April 2011, approval was given for the reorganisation and restructuring of the Debt Management Unit in the Economic Management Division into the Debt Management Branch.

Position	Number of DMB Officer Positions	Number Positions Filled (Jan 2013)	Number Positions Filled (as at Jan 2014)	% of Posts Filled (as at Mar 2014)
Head, DMB	1	1	1	100.0
Portfolio Management (Front Office)	7	5	6	85.7
Debt Strategy and Analysis (Middle Office)	8	2	5	62.5
Debt Operations (Back Office)	11	11	11	100.0
Compliance	1	0	0	0
Total	**28**	**19**	**23**	**82.1**

In FY 2013/14, four (4) posts were filled—three (3) in the Middle office and one (1) in the Front office. The total officer complement of the DMB now stands at 23.

APPENDIX I

Table 8: Debt Targets and Outcomes

Indicators	Outcomes Mar 2013	Outcomes Mar 2014	Outcomes Change	Targets Mar 2014 Min	Targets Mar 2014 Max	Targets Mar 2017
Profile (%)						
Domestic Debt:						
Fixed-rate	66.2	67.0	0.8	65.0	68.0	70.0
Floating rate*	33.8	33.0	-0.8	32.0	35.0	30.0
Inflation-linked	2.0	2.1	0.1	-	2.0	2.0
External Debt:						
Fixed-rate	67.8	63.8	-4.0	65.0	75.0	70.0
Floating rate	32.2	36.2	4.0	30.0	35.0	30.0
Total Foreign currency debt	*55.5*	*58.7*	*3.2*	-	*56.5*	*61.0*
Proportion of foreign currency in domestic debt	20.0	21.5	1.5	20.0	22.0	17.0
Cost Structure						
Average Interest Cost (Total):	7.4	6.8	-0.6	7.0	7.8	<10.0
Domestic	9.2	8.6	-0.6	8.0	9.0	-
External	5.1	4.5	-0.6	5.0	5.8	-
Maturity structure						
Average Maturity (years)	11.9**	10.8	-1.1	8.2	8.7	≥9.0
% Maturing in 1 year:	5.0**	5.0	-	-	8.0	≤10.0
Domestic	3.5	0.5	-3.0	-	-	-
External	1.5	4.5	3.0	-	-	-
Contingent Liabilities (% of GDP)	12.6	11.8	-0.8	-	-	8.0

Source: Ministry of Finance and Planning
****Include inflation-linked debt***
*****Figures revised***

APPENDIX II

Table 9: Holder Categories of GOJ Securities

General Government sector	Non-Bank Financial Institutions	Bank Financial Institutions	Households	Non-Profit
Administrator General	Primary Dealers	Commercial Banks	Individuals	Other Institutions
H.E.A.R.T	Secondary Dealers	Other Banks		
Other Government Institutions	General Insurance Companies			
National Housing Trust	Life Insurance Companies			
Bank of Jamaica	Superannuation Fund, Retirement Schemes & Pension Fund			
	BOJ Pension Fund			
	Broker Related A/C merchant Banks & Trust Co.			
	National Insurance Fund			
	Building Societies			

APPENDIX III

GLOSSARY

Amortisation

Amortisation refers to principal repayments on loans. These repayments reduce the borrowed money by portions, which are usually fixed amounts or expressed as a percentage of the whole.

Auction

An auction is a system by which securities are bought and sold on a competitive bidding process. The auctions are conducted on a multiple-price-bidding basis, which means that the successful investor will receive stocks at the price he bids.

Benchmark Bonds

These are bonds that are sufficiently large and actively traded, such that their prices serve as reference for other bonds of similar maturities. More specifically, the benchmark is the latest issue within a given maturity. For a comparison to be appropriate and useful, the benchmark and the bond being measured against it should have a comparable liquidity, issue size and coupon. Government bonds are almost always used as benchmark.

Contingent Liabilities

Contingent liabilities are obligations that materialise if a particular event occurs. They can be explicit, if the sovereign contractually acknowledges its responsibility to cover the beneficiary under specific circumstances, or implicit, when the government is expected to do so because it has a "moral" obligation to act, in most cases related to a high opportunity cost of not intervening.

Debt Service Payments

Debt service payments cover interest charges on a loan. Some sources also include amortisation under debt service payments. These payments liquidate the accrued interest (and loan obligations if amortisation is included).

Eurobond

A bond underwritten by international investors and sold in countries other than the country of the currency in which the issue is denominated. Usually, a Eurobond is issued by a corporate or sovereign and categorised according to the currency in which it is denominated. In July 1997 Jamaica issued a five-year US$200mn Eurobond, which was its first ever.

Inflation-Indexed Bonds

Inflation-Indexed bonds are securities with the principal linked to the Consumer Price Index. The principal changes with inflation, guaranteeing the investor that the real purchasing power of the investment will keep pace with the rate of inflation. Although deflation can cause the principal to decline, at maturity the investor will receive the higher of the inflation-adjusted principal or the principal amount of the bonds on the date of the original issue.

On-the-run security

In finance, an on-the-run security or contract is the most recently issued, and hence most liquid, of a periodically issued security. On-the-run securities are generally more liquid and trade at a premium relative to other securities. Other, older issues are referred to as off-the-run securities, and trade at a discount to on-the-run securities.

Project Loan

The term refers to loans, which fund capital development activities. The term capital refers to lasting systems, institutions and physical structures. Project loans are typically funded from foreign sources by bilateral/multilateral institutions.

Public Debt Charges / Public Debt

Public debt refers to the loan obligations of Central Government. The obligations of Government entities are also included if such entities are unable to meet their obligations. The entities, however, are then indebted to the Central Government. Public debt charges are interest payments on the loan obligations and include related incidental expenses such as service fees, late payment penalties and commitment fees.

Sovereign Rating

A sovereign rating is an assessment of the default risk for medium and/or long-term debt obligations issued by a national Government (denominated in foreign currency), either in its own name or with its guarantee. Ratings are produced by independent agencies (Moody's Investors Service, Standard & Poor's and others). The ratings provide a guide for investment risk to capital market investors.

Treasury Bills

Treasury Bills are short-term debt obligations backed by the government with maturities less than one year. The Government of Jamaica issues Treasury Bills with 30-, 60- and 180-day tenors. Treasury Bills are issued through a competitive bidding process at a discount from par, which means that rather than paying fixed interest payments like conventional bonds, the appreciation of the instrument provides the return to the holder.

Yield Curve

A line graph showing the interest rates at specific points in time by plotting the yields of all securities with the same risk but with maturities ranging from the shortest to the longest available. The yield curve for Government securities is often used as a benchmark for pricing other debt in the market. The curve is also used as an indicator of macroeconomic conditions.