GOVERNMENT OF JAMAICA

MEDIUM-TERM DEBT MANAGEMENT STRATEGY FY2015/16 - FY2017/18

"Jamaica's Sovereign Bond Index has outperformed Latam Sovereign Bond Index"
- Oppenheimer 's Emerging Markets Fixed Income Research Country Comment, January 28, 2015

"Why S&P raised Jamaica's rating outlook to positive"
- Jamaica Observer, September 24, 2014

"Jamaica welcomed back to bond market"
-LatinFinance, July 2, 2014

"Jamaica jumps 27 places on world doing business report"
- Jamaica Gleaner, October 29, 2014

"IMF chief Lagarde praises Jamaica's leadership in making economic reforms, spurring growth"
-Associated Press, June 27, 2014

Ministry Paper No:

February 19, 2015

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LIST OF ABBREVIATIONS

ATM	Average Time-to-Maturity
ATR	Average Time to Refixing
BOJ	Bank of Jamaica
BPS	Basis Points
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CDB	Caribbean Development Bank
CIS	Collective Incentive Scheme
CPI	Consumer Price Index
DMB	Debt Management Branch
EFF	Extended Fund Facility
ERP	Economic Reform Programme
FAA Act	Financial Administration and Audit Act
FR	Fixed-Rate
FRF	Fiscal Responsibility Framework
GDP	Gross Domestic Product
GOJ	Government of Jamaica
ICM	International Capital Market
IMF	International Monetary Fund
JDX	Jamaica Debt Exchange
JAMCLEAR-CSD	JamClear Central Securities Depository

LIBOR	London Inter-Bank Offered Rate
MTDS	Medium-Term Debt Management Strategy
NDX	National Debt Exchange
NIR	Net International Reserves
PBMA Act	Public Bodies Management and Accountability Act
PCDF	PetroCaribe Development Fund
PED	Public Enterprises Division
PDMA	Public Debt Management Act
PPP	Public-Private Partnership
REPO	Repurchase Agreement
VR	Variable-Rate

FOREWORD

The Medium-Term Debt Management Strategy (**MTDS**), published by the Government of Jamaica (**GOJ**) and formulated utilizing a set of analytical tools and procedures developed by the IMF and the World Bank, forms a critical part of the country's debt management operations.

The MTDS FY2015/16 – FY2017/18, as required under the Public Debt Management Act, 2012 (**PDMA),** outlines the optimal strategy given the macroeconomic framework to facilitate the reduction of the public debt to a sustainable level. This carefully evaluated strategy also ensures that the Government satisfies its borrowing requirements at minimum costs and prudent levels of risks.

Pursuant to the recently enhanced fiscal rules legislation, the FY2015/16 - FY2017/18 MTDS is being tabled along with other budget documents prior to the end of the FY2014/15. This reflects the GOJ's efforts to strengthen financial discipline, and ensure adherence to the debt-reduction programme thereby facilitating achievement of the strategic and operational objectives of the economic reform programme.

In keeping with the objective of inclusiveness and open dialogue with stakeholders, the GOJ welcomes your comments at: invrelinfo@mof.gov.jm

Peter D. Phillips PhD, MP
Minister of Finance and Planning
February 19, 2015

Devon Rowe, CD
Financial Secretary
February 19, 2015

ACKNOWLEDGEMENTS

As FY2015/16 approaches, the Debt Management Branch (DMB) in the Economic Management Division of the Ministry of Finance and Planning continues to play an integral role in the achievement of the goals of the GOJ's Economic Programme by developing and implementing critical strategies to facilitate the reduction of the public debt to a sustainable level.

The DMB remains steadfast in its efforts to be innovative and proactive in the strategies pursued to satisfy the funding needs of the Government at minimal cost and prudent levels of risk.

Sincere appreciation is extended to the DMB team for their valuable contributions and dedication to the production of this document. The team worked tirelessly to ensure the contents and quality meet international standards and that the information presented is accurate and relevant.

I would also like to express special thanks to Miss Darlene Morrison, the Deputy Financial Secretary, Economic Management Division; Mrs. Michele Robinson, Debt Management Consultant; staff of the World Bank, and the Public Debt Management Committee for their support, guidance and input which contributed to this publication.

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Medium-Term Debt Management Strategy

FY2015/16 - FY2017/18

SECTION I: INTRODUCTION

This Medium-Term Debt Management Strategy (MTDS) document provides a summary of the debt management objectives, the medium-term strategy, targets for debt indicators for the period FY2015/16 through FY2017/18, and the annual borrowing plan for FY2015/16. The MTDS is updated annually to guide the management of the public debt. This facilitates planning, predictability and transparency in debt operations. The debt strategy guidelines, highlighted in **Figure 1**, represent the context within which the medium-term strategy is developed and informs the debt management operations.

Figure 1: Medium-Term Debt Strategy Guidelines

The MTDS is underpinned by the Fiscal Responsibility Framework (FRF), which was effected through amendments to the Financial Administration and Audit (FAA) Act and the Public Bodies Management and Accountability (PBMA) Act. The FRF represents the Government's commitment to structural and fiscal reforms to proactively manage the public finances and ensure both fiscal and debt sustainability. Reducing debt-to-GDP to a sustainable level remains a priority for the GOJ. The FRF has at its core fiscal rules intended to attain fiscal targets, the most important of which is the reduction of debt to a sustainable level. It is anticipated that adherence to the fiscal rules will assist the Government in achieving the targeted reduction of debt-to-GDP to 96.0% by March 2020.

In addition, amendments to other legislation are expected to complement the FRF and contribute to an improvement in the competitiveness of the domestic economy, as well as foster economic growth while maintaining a sound and viable financial system. These reforms will also ensure transparency in the country's fiscal affairs and public debt management.

The implementation of various reform initiatives to improve the business environment under the Government's Economic Reform Programme (ERP) has yielded positive results, most notably a significant improvement in facilitating business as evidenced by the country's improved rating on the Ease of Doing Business Index. Based on a World Bank Report, "*Doing Business 2015: Going Beyond Efficiency*", Jamaica has moved up 27 places from 85th to 58th out of 189 countries, and is now ranked the highest in the Caribbean in regards to the ease of doing business. Additionally, leading international business publication, Forbes Magazine, in its *2014 Forbes Best Countries for Business Report*, ranked Jamaica as the best country in the Caribbean to do business and third in Latin America and the Caribbean.

The results of the reforms implemented also contributed to international credit rating agency, Standard and Poor's (S&P), upgrading Jamaica's credit outlook from stable to positive while affirming Jamaica's 'B-/B' long- and short-term foreign and local currency rating during the second quarter of the year. The improved outlook is supported by the stable political environment, adherence to the International Monetary Fund Extended Fund Facility (EFF) programme, as well as the successful issuance of a US$800.0 million bond. The positive credit rating outlook facilitates access to other external resources and enhances market confidence.

This paper is divided into seven sections, including the introduction. **Section II** profiles the debt stock. **Section III** provides a cost/risk analysis of the current debt portfolio, including an overview of main achievements in FY2014/15. **Section IV** gives an overview of the macroeconomic scenarios and implications and potential risks for the strategy. **Section V** presents the Medium-Term Debt Management Strategy (MTDS) for the period FY2015/16 to FY2017/18, including the target indicators. **Section VI** discusses the issuance strategy for FY2015/16. **Section VII** outlines the annual borrowing plan, including the plan to reactivate the domestic market.

SECTION II: PROFILE OF THE DEBT STOCK

At end-December 2014, the stock of debt stood at $2,039.7 billion which is $93.7 billion or 4.8% more than the outturn for end-March 2014. Domestic debt accounted for $1,046.9 billion or 51.3%, while external debt was $992.8 billion or 48.7% of the total portfolio. The stock is expected to be $2,072.0 billion at end-FY2014/15, representing a 6.5% increase over end-FY2013/14.

Inflows from a Global Bond in the amount of US$800.0 million, equivalent to J$89.8 billion that was floated in July 2014 accounted for the majority of the increase through December 2014. The increase is also the result of loan inflows from multilateral creditors (IMF and CDB) that provided funding for budgetary support in the amount of US$165.0 million ($15.3 billion) and loan inflows from the PetroCaribe Development Fund (PCDF) of US$132.9 million ($16.6 billion). Also, during the period, depreciation of the domestic currency vis–à–vis a basket of currencies, including the US dollar, added approximately $54.8 billion to the debt stock. Debt amortization, as well as early redemption through buy-backs, offset the overall increase. **Table 1** shows a breakdown of the debt by creditor category.

Table 1: Total debt stock[1] by creditors

	End-March 2014		End-December 2014		Change	
	J$ Billion	% total debt	J$ Billion	% total debt	J$ Billion	%
Total Debt	**1,946.0**	**100.0**	**2,039.7**	**100.0**	**93.7**	**4.8**
Total Domestic Debt	**1,024.5**	**52.6**	**1,046.9**	**51.3**	**22.4**	**2.2**
- Marketable Securities	**871.2**	**44.8**	**874.4**	**42.9**	**3.2**	**0.4**
Bonds	867.2	44.6	870.4	42.7	3.2	0.4
Treasury bills	4.0	0.2	4.0	0.2	0.0	0.0
- Loans	***153.3***	**7.9**	***172.5***	**8.5**	***19.2***	***12.5***
Total External Debt	**921.5**	**47.4**	**992.8**	**48.7**	**71.3**	**7.7**
- Marketable Securities	**396.7**	**20.4**	**472.6**	**23.2**	**75.9**	**19.1**
Bonds	396.7	20.4	472.6	23.2	75.9	19.1
- Loans	**524.8**	**27.0**	**520.2**	**25.5**	**-4.5**	**-0.9**
Bilateral	93.1	4.8	94.8	4.6	1.8	1.9
Multilateral	386.5	19.9	383.5	18.8	-3.0	-0.8
IMF	88.7	4.6	76.3	3.7	-12.4	-14.0
IDB	157.0	8.1	162.1	7.9	5.1	3.2
IBRD	83.7	4.3	86.4	4.2	2.7	3.3
Other	57.1	2.9	58.7	2.9	1.6	2.8
Private creditors	45.2	**2.3**	**41.9**	**2.1**	**-3.3**	**-7.3**

Source: Ministry of Finance and Planning

[1] Total debt here is defined as Bank of Jamaica, Central Government and external guaranteed debt.

SECTION III: COST AND RISK ASSESSMENT

The MTDS aims to create a portfolio which will minimise costs and mitigate risks[2]. A sound risk mitigation policy is an important tenet of prudent debt management. The economy is susceptible to a wide variety of exogenous shocks and macroeconomic vulnerabilities that can create significant downside risks for the debt portfolio. The portfolio is mainly exposed to market and refinancing risks.

Several variables embedded in the functioning of financial markets can result in losses or gains. Exposure to the movement in variables such as exchange rates, interest rates and inflation is termed market risk, and this can have a positive or negative impact on the stock of debt.

Jamaica's public debt is mainly exposed to exchange rate and interest rate risks. With approximately 60.0% of the total public debt denominated in foreign currency, it is important that emphasis is placed on mitigating foreign exchange risk. Interest rate risk is moderate, as the proportion of debt that is subject to interest rate change at a particular time represents less than one-third of the total debt portfolio. Inflation risk is currently contained, as only 2.1% of total debt moves commensurately with the Consumer Price Index (CPI).

The targets set for FY2014/15 and the medium-term are outlined in **Table 2**. These targets are consistent with the portfolio structure based on the GOJ's preference with respect to expected cost/risk objectives. As at end-December 2014, the Government debt operations were in line with the established targets and it is expected that the targets will be met at end FY2014/15. The minimum and maximum limits allow for a degree of flexibility in debt management operations in response to potentially volatile market conditions and/or changes in borrowing needs.

[2] The Government decides on an acceptable level of cost-risk trade-off, suited to Jamaica's fiscal context and the Government's risk tolerance.

Table 2: 2014-15 Debt outcomes- March - December 2014, versus target indicators of MTDS

Outcomes				Targets		
	End-Mar-14	End-Dec-14	Change	End-Mar-15 Min	End-Mar-15 Max	End-Mar-18
FOREIGN CURRENCY RISK						
Foreign currency debt/total debt (%)	58.7	60.6	1.9	61.0	63.0	63.0
Foreign currency domestic debt / total domestic debt (%)	21.5	23.3	1.8	22.0	24.0	28.0 (*)
INTEREST RATE RISK						
Total debt						
Fixed rate	65.5	66.3	1.8	-	-	70.0
Floating rate	34.5	33.7	0.8	-	-	30.0
Domestic debt						
Fixed rate	67.0	67.7	0.8	65.0	68.0	70.0
Floating rate*	33.0	32.3	-0.8	31.0	35.0	30.0
Inflation linked-debt	2.1	2.1	0.0	-	2.0	2.1
External debt:						
Fixed-rate	63.8	64.9	1.1	61.0	64.0	70.0
Floating rate	36.2	35.1	-1.1	35.0	39.0	30.0
REFINANCING RISK						
Average Maturity (years)	10.8	10.8	0.0	9.0	-	≥9
% Maturing in FY15-16	5.0	8.6	3.6	-	8.0	≤10
Domestic	0.5	3.6	3.1	-	-	-
External	4.5	5.0	0.5	-	-	-
CONTINGENT LOAN GUARANTEE RISK						
Guaranteed Loans (% of GDP)	11.8	11.5	-0.3	-	-	8.0
COST STRUCTURE						
Average Cost (Total):	6.3**	6.1	-0.2	7.0	7.8	<10
Domestic	7.4**	7.0	-0.4	8.0	9.0	-
External	5.2**	5.2	-0.1	5.0	5.8	-

Source: Ministry of Finance and Planning

* **Includes inflation-linked debt**

** **Figures Revised**

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

3.1. Foreign Currency Risk

Foreign currency risk is the risk that the debt stock and the associated debt service costs will increase as a result of volatility in exchange rates. One way in which this risk is measured is by the share of foreign currency debt relative to total debt. Approximately 60.0% of the debt portfolio is denominated in foreign currencies **(See Figure 2).** This, coupled with the fact that the foreign exchange rate is market-determined, means that a depreciation of the Jamaica dollar vis-a-vis other currencies will increase debt service costs as well as the stock of debt, in Jamaica dollar terms.

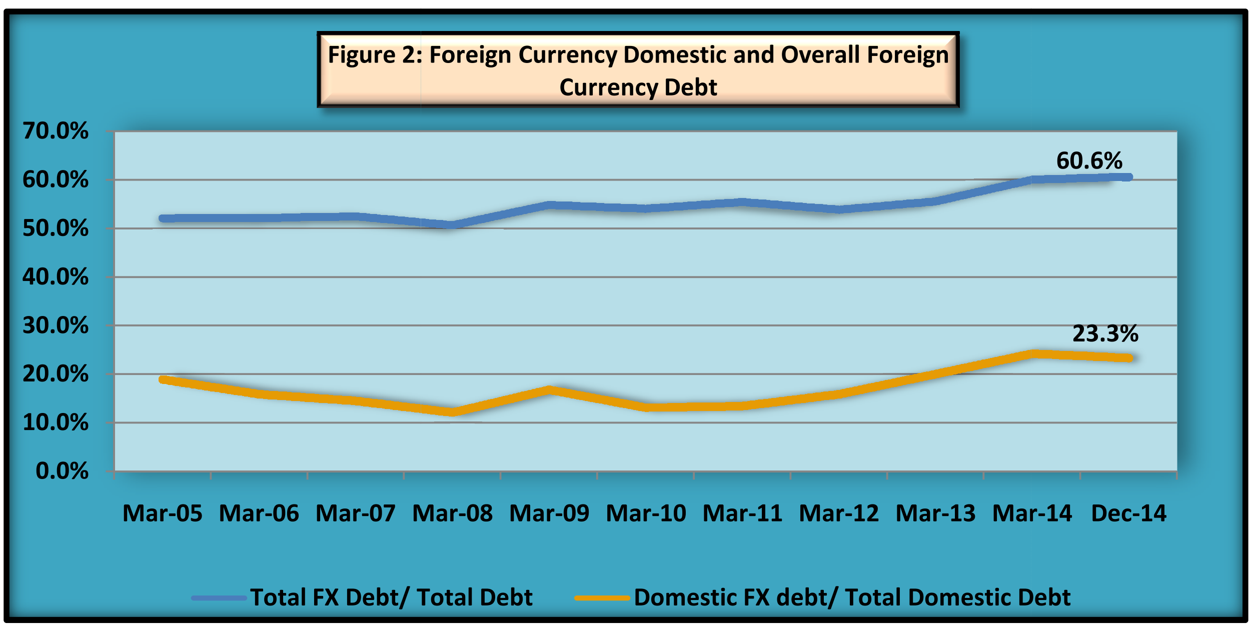
The US dollar remains the major currency in the debt portfolio, followed by the Jamaica dollar. The Euro currency remains the third major component. The US dollar is the preferred foreign currency, as the country's major earnings are in US dollars. Further, the Net International Reserves (NIR) is held in US dollars and this provides a natural hedge against foreign currency risk in the debt portfolio. As at end-December 2014, the NIR stood at US $2,001.97 million. In addition, external debt service to exports of goods and services and current transfers, which shows the country's capacity to service its external debt is projected to be 17.1% at end-FY2015/16. This is below the international benchmark of 20.0%.

During the review period, the domestic currency depreciated by 4.6% relative to the US dollar. If the debt portfolio were to be insulated from exchange rate risk, it would have to be denominated solely in the domestic currency. However, the domestic market is not sufficiently deep and liquid to absorb the Government's demand for financing without causing adverse movements in domestic interest rates and/or crowding out of the domestic private sector. This has led the GOJ to seek funding for the budget in external markets which is consequently denominated in foreign currency. Additionally, some local investors have expressed a desire to hold foreign currency assets in their portfolios. This foreign currency debt provides both the GOJ and investors with diversification benefits.

In some instances, the Government is able to secure foreign currency-denominated concessionary loans which provide cost/risk benefits as they are contracted at lower interest rates despite the inherent foreign exchange risk. On the other hand, investors may view foreign currency-denominated debt as being more attractive than similar investments denominated in domestic currency. It is therefore imperative that Government weigh the cost/risk trade-offs from these sources. Given the current cost/risk profile, it is not realistic for foreign currency debt to be completely eliminated over the medium-term.

During the period April 2014 to end-December 2014, the foreign currency-denominated debt increased by 1.9% to represent 60.6% of the total public debt, which is below the outer target of 63.0%. This resulted from repayment of a matured Eurobond, as well as early repayment of a portion of debt in the external portfolio through liability management.

At the same time, with an outturn of 23.3%, the foreign currency domestic debt was within the targeted range of 22.0%-24.0% of total domestic debt. Disbursements from the PCDF and depreciation led to an increase in the proportion of foreign currency domestic debt in Jamaica dollar terms.



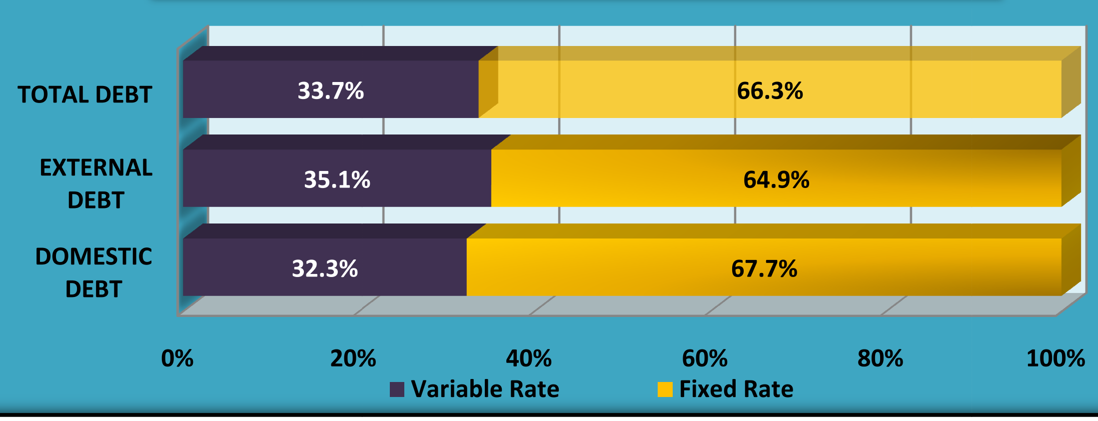
Source: Ministry of Finance and Planning

3.2. Interest-Rate Risk

Interest rate risk refers to the risk of increases in the cost of the debt arising from changes in interest rates. For both domestic and foreign currency debt, changes in interest rates affect debt service costs on new issues when fixed rate debt is refinanced and on existing and new floating rate debt on the rate reset dates[3]. Fixed-rate debt insulates the portfolio by minimizing the effect of interest rate shocks on debt service costs. On the other hand, where the portfolio includes variable interest rate debt, the portfolio benefits from lower costs when interest rates fall. The domestic variable rate debt is 32.3% of total debt and is mainly linked to the 3-month Weighted Average Treasury Bill Yield, while the external variable rate debt at 35.1% is linked to the London Inter-Bank Offered Rate (LIBOR).

Consistent with the Government's debt management strategy, the majority of new debt contracted during FY2014/15 was on a fixed interest rate basis in both the domestic and external portfolios. The targets for domestic debt were achieved, as outcomes for fixed-rate domestic debt were within the range of 65.0%-68.0%. As shown in **Table 2**, the Government performed better than targeted on its fixed-rate debt in the external portfolio with an outturn of 64.9% against the targeted range of 61.0%-64.0%. The Government will seek to mitigate interest rate risk in the portfolio through interest rate swaps.

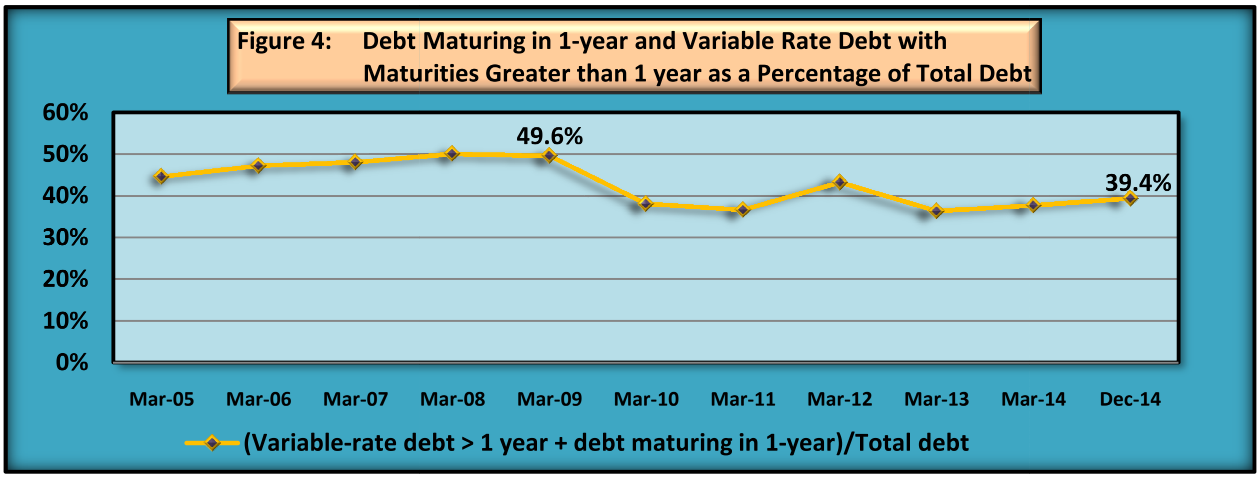
Figure 3: Interest Rate Composition of Domestic, External and Total Debt at End-December 2014



Source: Ministry of Finance and Planning

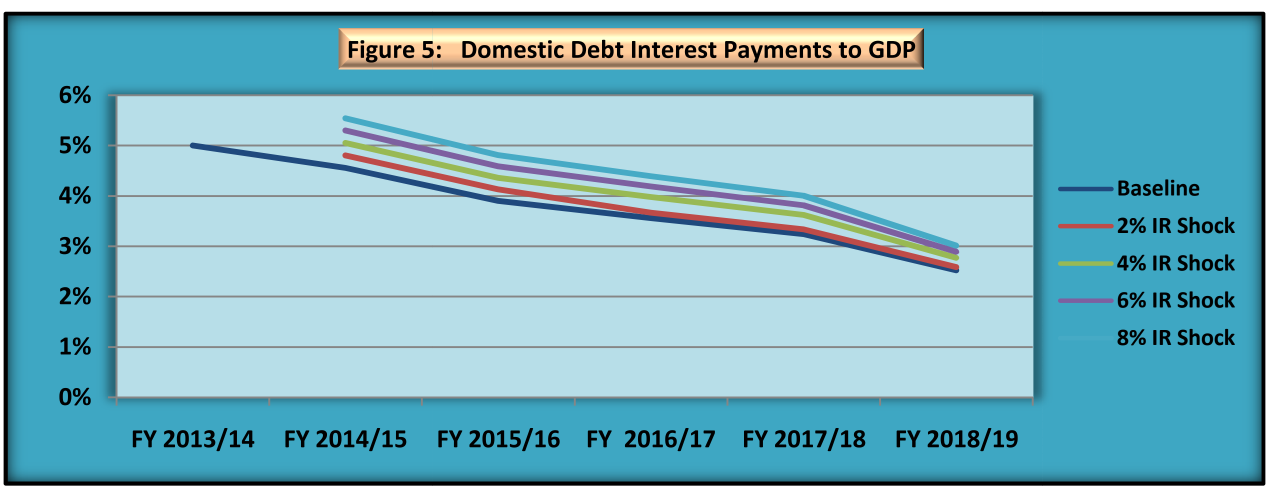
[3] IMF Policy Paper, Revised Guidelines for the Public Debt Management, April 1, 2014

Figure 4 depicts the proportion of total debt maturing in one year plus the share of floating-rate debt maturing in greater than one year. This shows that exposure of the portfolio to interest rate movements has steadily declined since March 2008, except in March 2012 when it increased as a result of the Government re-opening benchmark domestic bonds with remaining maturities of less than one year, to meet financing requirements. As at end-December 2014, the proportion of total debt maturing in one year plus the share of floating-rate debt maturing in greater than one year remained flat.



Source: Ministry of Finance and Planning

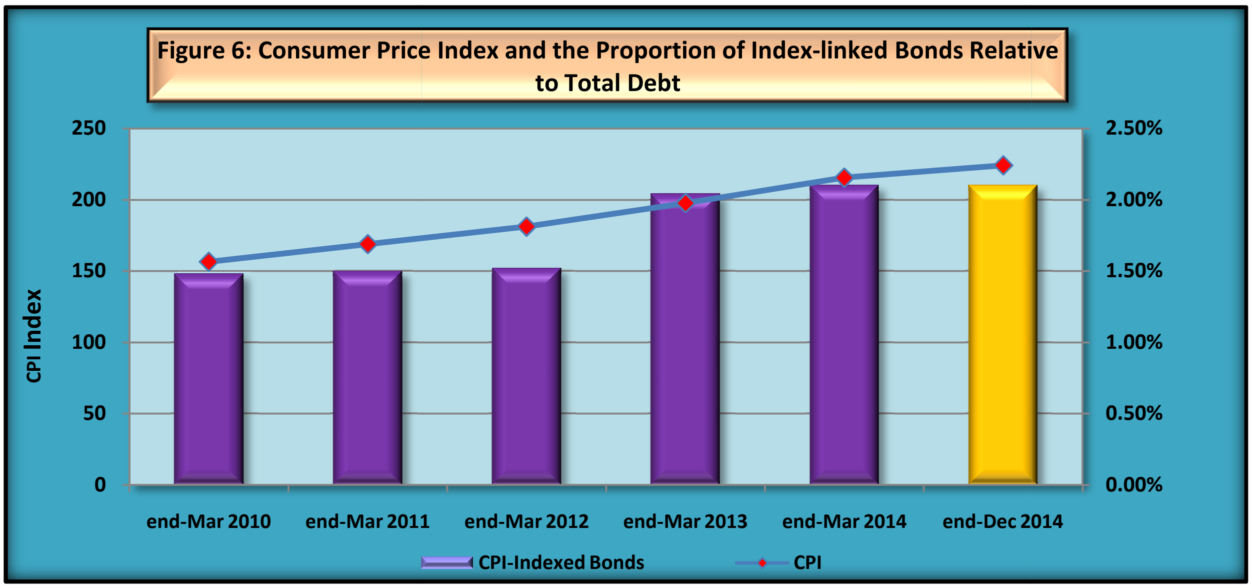
Based on the current composition of the portfolio, a 100 basis-point increase in domestic and external interest rates would increase annual debt service costs by approximately $6.9 billion or 0.4% of Gross Domestic Product (GDP). **Figure 5** depicts the impact that a permanent shock on domestic interest rates has on the debt trajectory.



Source: Ministry of Finance and Planning

3.3. Inflation Risk

The probability that the country will encounter higher debt service costs due to increases in the CPI is known as inflation risk. The strategy is to maintain the level of inflation-linked debt in the portfolio. The rationale for this strategy is to minimize the cost arising from indexation and mitigate the risk associated with inflation. As depicted in **Figure 6**, the level of inflation risk in the portfolio has remained consistently low, as only 2.1% of total debt is linked to inflation at end-December 2014. The proportion relative to the total debt portfolio is not expected to change.

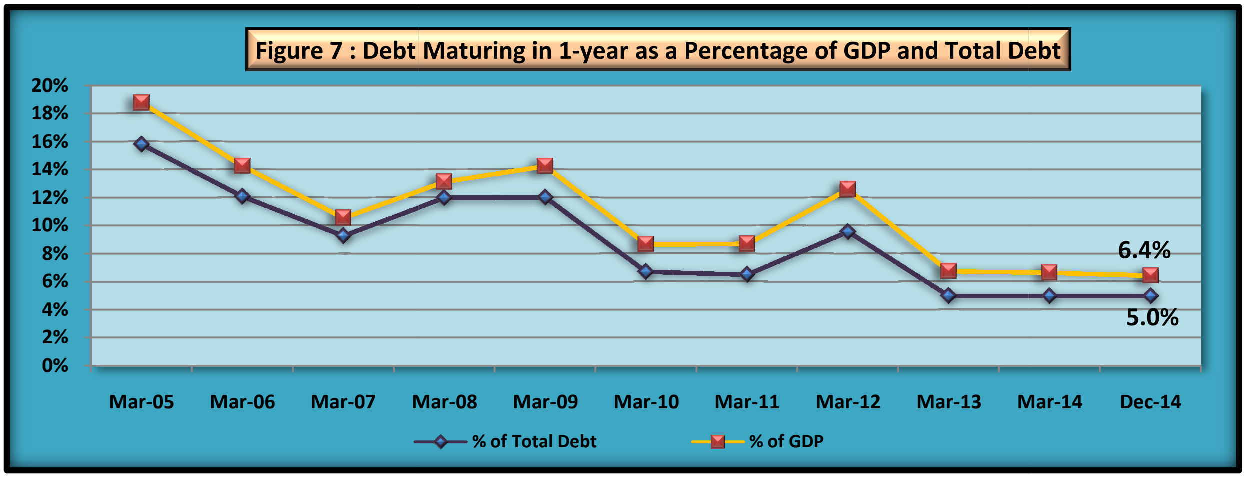


Source: Statistical Institute of Jamaica (STATIN), Bank of Jamaica and Ministry of Finance and Planning

3.4. Refinancing Risk

The risk that debt will have to be refinanced at a higher cost or cannot be refinanced is known as refinancing risk. This is measured by assessing, i) the proportion of debt that becomes due in one year or less, ii) the average time-to-maturity (ATM), and iii) duration. Short-term debt has an associated degree of refinancing risk, as it is often assumed that maturing debt will be refinanced with new borrowings. In some instances, these maturities are rolled over, but on less favourable terms or in extreme cases are not rolled over at all.

Intrinsic to refinancing risk are liquidity and demand-side risks, with either of these two creating or exacerbating refinancing risk in the portfolio. When there is a lack of funds with which investors may invest then refinancing risk will arise as a result of liquidity risk. Additionally, demand-side risk occurs when investors suddenly have no interest in government bonds, owing to, *inter alia,* low interest rates (See **Box 1**).



Source: Ministry of Finance and Planning

As at end-December 2014, 5.0% of total debt equivalent to 6.4% of GDP is scheduled to be repaid over the next twelve months. As indicated in **Figure 7**, the proportion of debt maturing in 12 months or less has been maintained at moderate levels and in line with the medium-term targets of ≥ 10.0%, since the realignment of the domestic portfolio in 2010.

Box 1: Demand-side and Liquidity Risks

Demand-side Risk

Market conditions can alter the supply of funds available from investors who desire to participate in sovereign debt issues. If conditions are unfavourable to lenders they may show a preference for alternative investments that are available to them. *Ceteris paribus*, the sovereign may face increased interest rate premium on new issues in order to attract investors, and even then, may still find it extremely challenging to attract the desired level of financing.

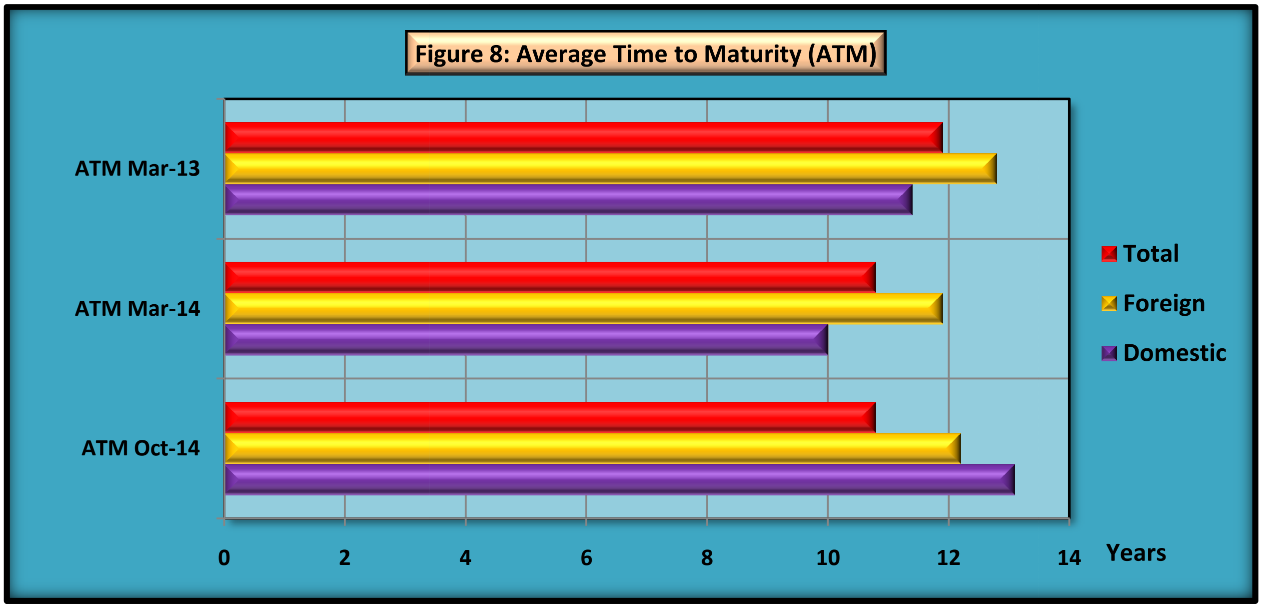
Liquidity Risk

Liquidity Risk is the probability that the Government may not raise adequate financing to satisfy budgetary requirements. The risks may be due to insufficient liquidity or the investing community deeming the security to be unattractive. The attractiveness of the securities to investors may be negatively affected by the following:

(a) return on investment not reflecting the expectations of the investors along the yield curve;
(b) uncertainty among investors arising from the socio-political environment; and
(c) instability created by geo-political events in the global environment that could disrupt the credit market.

However, this risk may be mitigated through the building of cash buffers, as designated reserves.

During FY2014/15, the Government was able to finance its obligations from mostly long-term debt which helped to reduce the maturities falling due in the short-term. The average-time-to-maturity (ATM) of the total debt portfolio was maintained at 10.8 years, well above the target of 9.0 years[4].



Source: Ministry of Finance and Planning

For FY2015/16, the Government will repay debt equivalent to 8.7% of the total portfolio or 10.5% of GDP. Repayment of global bonds and an NDX instrument will account for the greater proportion of these payments.

During FY2014/15, the Government was able to contract new debt with long tenors, in excess of 10.0 years at fixed-rates to fund its FY2014/15 obligations and partially prefund the global bonds that will become due in FY2015/16. This lengthening of maturities in the portfolio mitigates rollover and interest rate risks. The government will continue its effort to improve the maturity profile.

[4] The ATM is the average tenor of the debt in the portfolio, i.e. the average length of time for all debt instruments to be repaid. The higher the ATM, the longer the Government has to repay the debt; the converse applies. A portfolio that is heavily weighted with short maturities will have a low ATM and hence greater exposure to refinancing risk

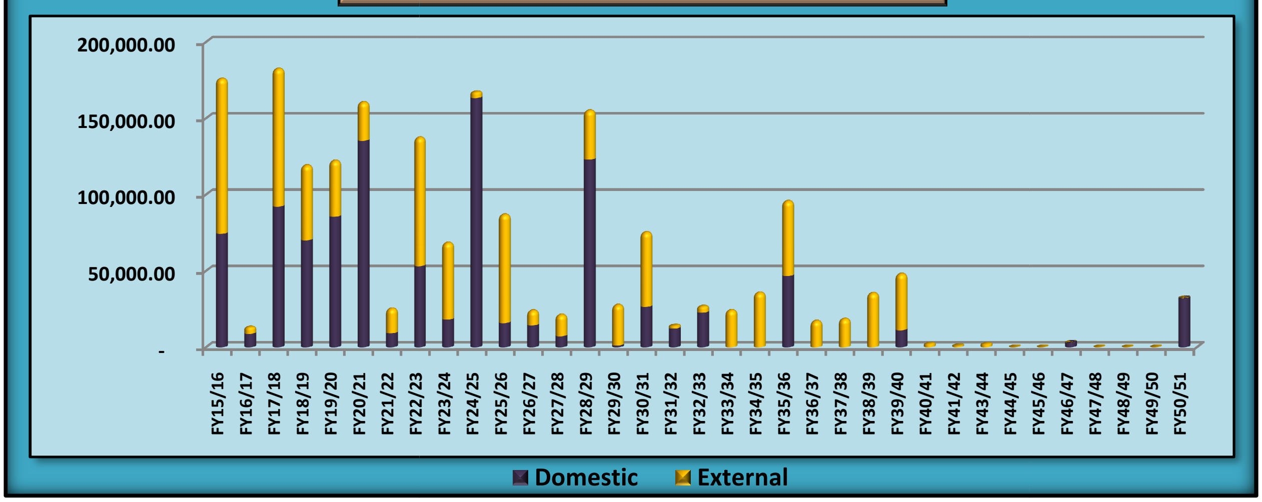


Figure 9: Maturity Profile of Total Debt (in J$ million)

Source: Ministry of Finance and Planning

Another measure of refinancing risk, and by extension, interest rate risk is duration. This is a measure of the average time required for the total debt portfolio to be affected by changes in interest rates. It also indicates how sensitive a portfolio is to changes in interest rates and as such is a measure of price sensitivity. Sovereigns will strive to maintain a debt portfolio with a high duration rather than one with a low duration, as high durations are less risky. Bonds with higher durations carry less risk than bonds with lower durations. At end-December 2014, the duration of the GOJ portfolio remained relatively high at approximately 10.0 years.

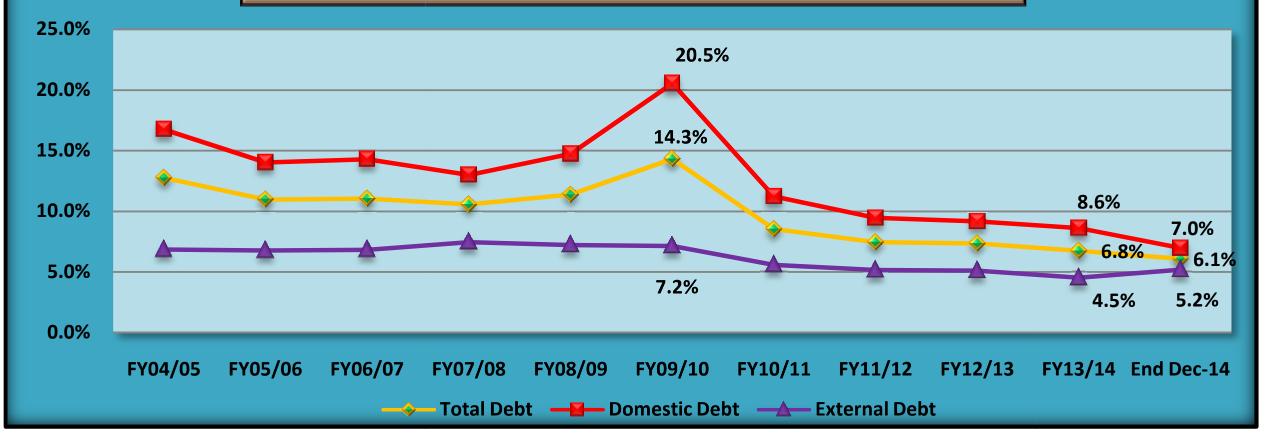
3.5. Average Cost

In formulating the borrowing profile to satisfy the country's financing needs, the Government considers the implication of the cost/risk trade-off of various options. Consequently, the optimization of the cost/risk trade-off is an important objective underlying the Government's decision-making.

Despite the inherent foreign exchange risk associated with foreign currency debt, the gains in terms of cost-savings are much better in the external markets than from domestic sources. The persistently low LIBOR in the external markets has been favourable to the Government. The 6-month LIBOR currently stands at 0.38%. This resulted in much lower returns to investors, than would have occurred with issues in the domestic market given indicative interest rates or yield levels prevailing in the domestic market. In addition, the risk management choices available in some multilateral loans, where borrowers have the option to change payment terms, for example, currency type, help the Government to benefit from low costs. Therefore, the combined factors of relatively low yield and prudent risk management through flexible options have led the Government to opt for a greater proportion of debt from external sources than from domestic sources over the review period.

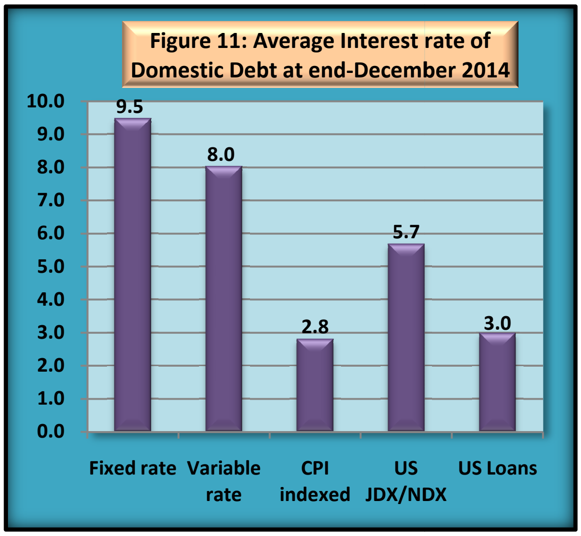
During FY2014/15, the Government secured loans mainly from external sources, which proved to be cost-effective despite the embedded foreign exchange risk. Due to the low demand for GOJ domestic instruments and low liquidity in the market, the Government would have experienced difficulty accessing the requisite amount of funding from the domestic market and therefore would have had to pay higher rates. Therefore, in an effort to minimize overall cost and satisfy the Government's financing needs, external borrowing was the preferred source of funding. In FY2014/15, foreign currency debt issued with 10-year maturity was approximately four percentage points on average lower than indicative yields on bonds in the domestic markets with similar tenor.

Figure 10: Average Interest Cost of Domestic, External and Total Debt

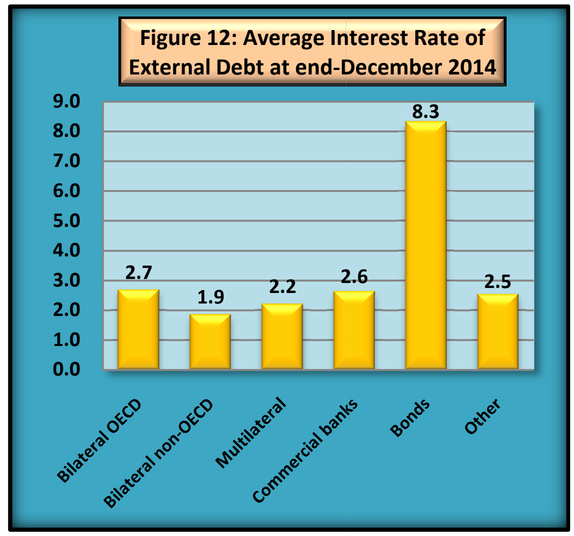


Source: Ministry of Finance and Planning

Notwithstanding the preference for external debt, the existing variable rate debt in the domestic portfolio benefited from reductions in base interest rates. For instance, weighted average yield on the 91-day Treasury Bill decreased by 139 basis points (bps) from 8.35% at end-March 2014, to 6.96% at end-December 2014. The reduction in the cost associated with variable-rate debt filtered into an overall reduction of the average cost of the total domestic debt. The reduction in the average cost of the domestic debt has also translated into a reduction in the average cost of the total debt.

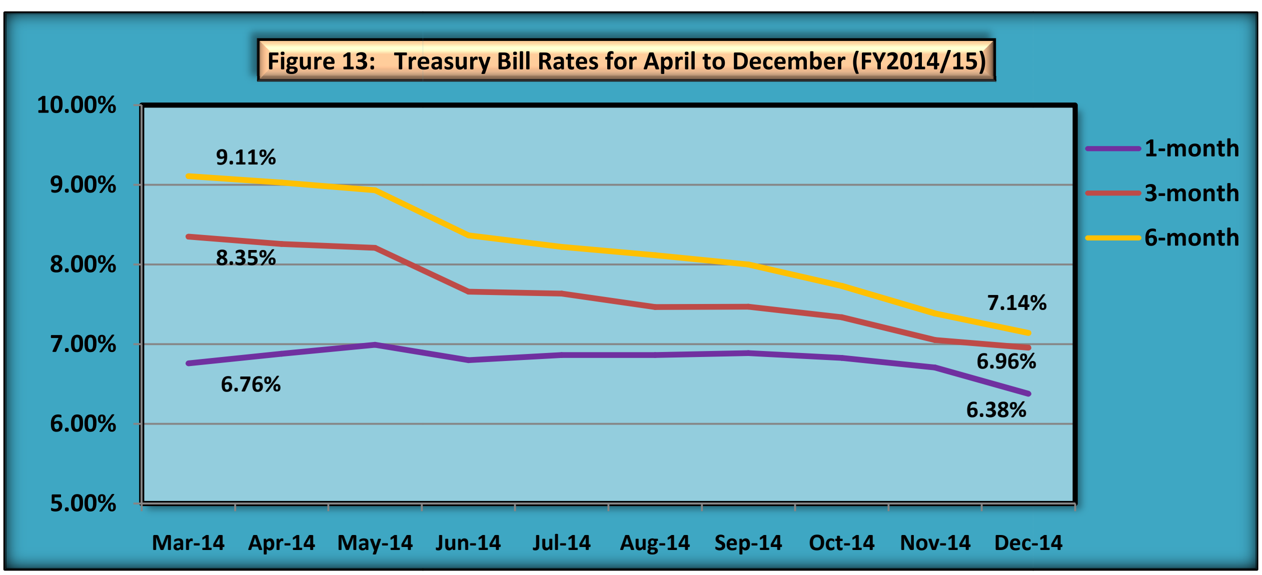


Source: Ministry of Finance and Planning



Source: Ministry of Finance and Planning

As shown in **Figure 13,** the Treasury Bill rates for all three tenors trended downwards during FY2014/15, with the 3-month Treasury Bill rate declining by 1.4% between end-March 2014 and end-December 2014. As approximately 32.3% of total domestic debt is presently linked to the 3- month Treasury Bill rate, the reduction in Treasury Bill yields served to reduce average interest costs. Furthermore, the average cost was further reduced with the raising of new fixed-rate loans from PCDF at concessional levels.



Source: Ministry of Finance and Planning and the Bank of Jamaica

During the year, the Government replaced higher cost maturing debt in the external portfolio with new debt that had lower interest rates, causing a marginal reduction in average interest cost when compared to March 2014.

3.6 Indicators of Vulnerability

Effective debt management practice requires a careful evaluation of the economic and financial shocks to which the Government is exposed. Government should have the ability and flexibility to continue its debt operations amid a wide range of financial and economic circumstances. Key indicators, which measure a government's vulnerability to economic and financial shocks that could jeopardize debt service capability, have been developed and are widely accepted by the international community. Ratios such as debt-to-GDP measure the sustainability of the debt and deterioration in this and other key indicators signal that a country is vulnerable and/or insolvent. Deteriorating indicators could restrict or impair a sovereign's ability to access the capital markets. It is for these reasons that various indicators related to the debt profile, such as debt service costs as a share of fiscal revenue, are closely monitored.

Over the medium-term, the Government expects to be operating with fiscal surpluses of 0.9% and 1.1% of GDP for the years FY2016/17 and FY2017/18, respectively. This has positive implications for the debt stock through a reduction in the growth rate of the debt, as well as flexibility in debt operations to achieve an optimal portfolio.

It is expected that at end-FY2014/15, the debt service/revenue and loan inflows and debt service/ tax revenue ratios seen in **Table 3** will show improvements when compared to the results for FY2013/14. At the same time, the projected outturn is better than originally forecasted as debt service benefitted from a lower than anticipated exchange rate for the Euro vis-à-vis the Jamaica dollar, and lower than programmed exchange rate for the US dollar vis-à-vis the Jamaica dollar. As shown in Table 3, debt service/GDP, debt service/revenue and loan inflows and debt service/tax revenue are expected to increase significantly in FY2015/16 compared to FY2014/15, as the Government has large maturities that will become due. The ratios are expected to be greatly reduced in FY2016/17, followed by an increase in FY2017/18.

It is projected that there will be increases in total interest/tax revenue, total interest/GDP and total interest/expenditure at the end of FY2014/15 when compared to FY2013/14. These ratios are expected to improve in FY2016/17 as GDP and tax revenue are forecasted to increase. At end-FY2014/15 interest is expected to be equivalent to 34.1% of tax revenue and 8.2% of GDP. It is forecasted that these indicators will improve throughout the rest of the medium-term as total interest cost is projected to be on a downward trajectory due to the government replacing higher cost debt with lower cost debt.

Domestic debt-to-GDP is forecasted to decrease at end-FY2014/15 as GDP growth outweighs the increase in the domestic debt. The external debt-to-GDP is forecasted to increase to 64.6% at end-FY2014/15 due to the Government prefunding some of its obligations for FY2015/16. However, after the obligations are settled the external debt will be reduced and the ratio is projected to be 60.1%. Thereafter, both domestic debt-to-GDP and external debt-to-GDP should continue on a downward trajectory as the Government aims to achieve the debt-to-GDP target of 96.0% by end-FY2019/20. While the debt-to-GDP is improving, the Government will continue to maintain high primary balance surpluses, pursue fiscal surpluses, and reduce contingent liabilities. The reduction in debt-to-GDP and the strengthening of the macroeconomic environment augur well for debt service costs.

As global bonds become due for payment in FY2015/16 and FY2017/18, external debt service relative to the value of exports of goods and services and current transfers is projected to be 17.1% and 18.5% for the respective years. For FY2016/17, the ratio is projected to be 9.7% as there is no large obligation to be settled. This ratio shows no risk of insolvency as the country can more than adequately finance its external debt obligations from foreign earnings. Despite an increase in external debt service cost, there are improvements in the global economy and competitiveness which influence the country's capacity to earn foreign exchange.

Despite the high debt levels, the Government of Jamaica continues to maintain a reputation of honouring its debt obligations. During FY2014/15, the Government has been repaying debt at a faster pace than scheduled, thereby deriving savings across the medium-term which can be redirected to social or other programmes. Strengthening of fiscal and debt sustainability are major pillars which support the country's growth strategy. The ratios outlined in **Table 3** provide the Government with early warning signals and an indication of the degree of vulnerability.

Table 3: Vulnerability Indicators and Debt Service Ratios, FY 2009/10 to FY2017/18

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
						Est.	Proj.	Proj.	Proj.
Debt/GDP*	131.6%	133.9%	131.9%	135.6%	133.3%	131.6%	121.3%	115.7%	107.4%
Debt/GDP**	-	142.5%	140.1%	144.9%	140.7%	139.7%	130.7%	128.1%	122.5%
Debt Service/GDP	32.8%	19.6%	19.7%	16.1%	14.8%	14.6%	18.4%	10.3%	18.1%
External Debt/GDP	62.0%	64.9%	59.4%	60.0%	63.1%	64.6%	60.1%	57.4%	55.3%
Domestic Debt/GDP	69.6%	69.0%	72.3%	75.2%	70.2%	67.0%	61.2%	58.3%	52.1%
Debt Service/Revenue & Loan Inflows	59.7%	43.6%	51.3%	44.0%	44.2%	39.6%	52.8%	35.5%	49.4%
Debt Service/Tax Revenue	134.7%	82.4%	85.9%	67.3%	63.0%	60.9%	75.3%	43.4%	76.3%
Total Interest/Tax Revenue	71.0%	45.9%	41.6%	39.7%	32.0%	34.1%	32.0%	27.9%	24.7%
Total Interest/GDP	17.3%	10.9%	9.6%	9.5%	7.5%	8.2%	7.8%	6.6%	5.9%
Interest Cost/Expenditure	44.8%	33.0%	29.9%	31.8%	27.8%	30.3%	28.4%	26.1%	24.1%
External Debt Service/Exports of Goods and Services, Current Transfers	12.6%	12.3%	18.6%	15.4%	16.3%	14.2%	17.1%	9.7%	18.5%

Source: Ministry of Finance and Planning

***Total Debt as defined by the GOJ here includes Central Government, Bank of Jamaica and external guaranteed debt.**

****Total debt as defined under the EFF includes Central Government debt, Bank of Jamaica, the net PetroCaribe debt, and external and domestic guaranteed debt.**

3.7. Hedging

In order to mitigate the market risks inherent in foreign loan arrangements, the Government has sought to take advantage of available hedging mechanisms that are embodied in loan agreements with multilateral creditors. The objective is to protect the portfolio from possible exchange and interest rate volatilities by attaching conversion options to new loan agreements. These include interest rate conversion/swaps and caps and collars which may be applied, as warranted, due to changes in certain market variables.

With approximately 60.0% of the total debt denominated in foreign currency, the major risk to the portfolio is foreign exchange risk. Since the Jamaica dollar tends to depreciate against the major trading currencies, the Government has to be proactive and implement strategies that will mitigate the exposure.

During the year, the Government did not execute any strategy to hedge its exposure to currencies that are volatile or those that represented large proportions of the foreign currency debt stock, as movements in volatile foreign currencies were either relatively stable or positive. However, as part of its plans to mitigate the level of foreign exchange risk in the portfolio, the Government did not refinance the Euro-denominated bond that matured in October 2014 with Euro currency. In FY2014/15, the Government launched and priced a benchmark 10-year average life bond issued in the ICM in the amount of US$800.0 million, which was used to meet Government's financing needs for FY2014/15, inclusive of refinancing the matured Euro-denominated bond. The rest was earmarked to prefund maturities falling due in FY2015/16.

The Government subscribes to the Caribbean Catastrophe Risk Insurance Facility (CCRIF), which helps to avert shocks to the debt stock and associated benchmarks in the event of a natural disaster. CCRIF helps to mitigate the short-term cash flow problems faced by small developing economies after a natural disaster. CCRIF's parametric insurance mechanism allows it to provide rapid payouts to help members finance their initial disaster response and maintain basic government functions after a catastrophic event. Subscription to this facility offers protection against potential increases in the debt stock and the associated debt service costs due to increased borrowings that would be required to fund rebuilding and rehabilitation programmes.

3.8 Portfolio Diversification – Creditor Composition

One way in which risks can be managed is through portfolio diversification, which is an integral part of risk management. Risks that the GOJ is exposed to, along with methods to mitigate against them have been highlighted above. In this sub-section, the risk that potential funding from creditors will become unavailable will be evaluated.

The GOJ's external creditor profile comprises Multilateral, Bilateral and Private Creditors, of which Bondholders represent 47.6% of the total portfolio. Domestic creditors are predominantly Merchant Banks & Trust Companies and Brokers, Insurance Companies and Bank of Jamaica at 20.4%, 17.8% and 15.1% respectively, of the domestic creditor base. The GOJ's continued achievement of fiscal targets is an important factor in determining the country's access to funds from these sources. Adverse deviations from these targets are significant risks to accessing funds from these creditors.

In an effort to diversify its investor base, the Government will consider offering 'student-savings' bonds in the domestic market, as well as broaden the existing pension fund base. Additionally, given the volatility of the ICM, the Government will seek to expand its external reach through geographic expansion, specifically to the Asian capital markets.

3.9 Contingent Liabilities

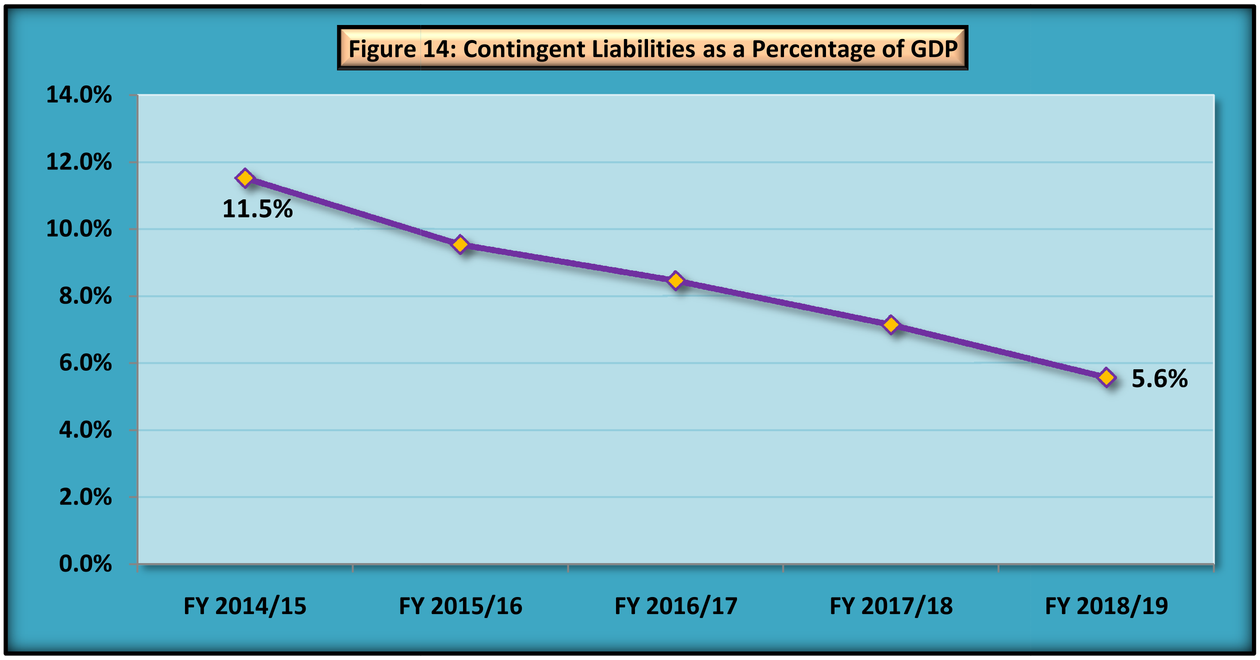
Obligations which may arise if a certain future event materializes are known as contingent liabilities. These may be classified as implicit and explicit. Implicit contingent liabilities are liabilities where the government does not have a contractual obligation to assume the liability but does so because the cost of not assuming the obligation would be too high. Explicit contingent liabilities are legal obligations undertaken by the government to make payments if particular events occur. Loan guarantees generally form the largest component of explicit contingent liabilities.

Contingent liabilities represent significant risk as they can lead to large increases in public debt, and should they be unanticipated can lead to sudden instability or crisis in the economy, as well as derail the government from the achievement of its long-term macroeconomic policy objectives. The management of contingent liabilities is therefore integral to effective debt management. Historically, the Government has assumed loans of state-run entities, as well as bailed out financial institutions to mitigate systemic risk. These actions have resulted in a higher debt stock and an increase in taxes and expenditures.

Against this background, the GOJ, in an effort to properly account for all contingent liabilities and associated risks has, in the PDMA, targeted contingent liabilities as a percentage of GDP to be no more than 8.0%, 5.0% and 3.0% at end-FY2016/17, end-FY2021/22 and end-FY2026/27, respectively. Contingent liabilities, as a percentage of GDP, are expected to be approximately 11.5% at end-FY2014/15.

A comprehensive framework has been developed which includes analyzing, monitoring and controlling guaranteed funds. This involves collaboration between the Debt Management Branch (DMB) and the Public Enterprises Division (PED) of the Ministry of Finance and Planning. The PED has responsibility for the analysis of the public entities' capacity to take on new loans, while the DMB evaluates loan proposals, monitors and reports on the guarantee portfolio, ensuring the legal limits are not breached.

The PDMA mandates that public bodies submit reports to the Minister with responsibility for Finance, providing details of all their debts and liabilities. Additionally, amendments to the FAA Act have improved fiscal rules which, *inter alia,* require that the Government develops mechanisms to closely identify and monitor fiscal costs and contingencies associated with Public-Private Partnerships (PPP).



Source: Ministry of Finance and Planning

At end-December 2014, contingent liabilities as a percentage of GDP stood at 11.5%. The ratio is expected to trend downwards over the medium-term and continue on that path towards the 3.0% requirement by FY2026/27. Current projections are that by end-FY2017/18 contingent liabilities to GDP will be 5.6%. The GOJ will continue its prudent management of contingent liabilities in order to successfully meet the targets.

SECTION IV: MACROECONOMIC OVERVIEW

4.1 Economic Overview

Macroeconomic indicators such as those outlined in **Table 4** are integral to the development of the Estimates of Revenue and Expenditure and, by extension, the debt trajectory over the medium-term. Continued improvement in the economy is predicated on the implementation of several structural reforms under the EFF, as well as persistent fiscal discipline and the implementation of growth-inducing strategies. Additionally, continued global economic recovery will facilitate a favourable external environment, which will contribute to stability in the macroeconomic indicators, leading to growth.

The GOJ has reaffirmed its commitment to achieving the targets agreed under the Extended Fund Facility with the IMF. During FY2015/16, the Government intends to maintain the primary surplus at 7.5% of GDP. Over the medium term observance of the fiscal rules should generate fiscal surpluses, thereby facilitating achievement of the debt sustainability threshold. It is expected that under the FRF and associated fiscal rules, debt-to-GDP will be 96.0% by FY2019/20 and 60.0% or less by FY2025/26.

The BOJ continues to maintain its focus on price stability, with the ultimate aim of achieving inflation within the range of 3.0% - 4.0%. As a precursor to achieving the targeted inflation range, the existing accommodative monetary policy will be continued in the short- to medium- term. Notwithstanding, should there be any developments which threaten the inflation target, the BOJ is ready to act accordingly.

Real GDP growth is projected at 0.3%, 1.6% and 2.0% for FY2014/15, FY2015/16 and FY2016/17, respectively. The growth projection for FY2017/18, the end point of the current medium-term profile, is 2.9%, which is 2.6 percentage points higher than the expected growth at the beginning of the medium-term. Meanwhile, inflation at end FY2014/15 is expected to be 5.3% or 3.0 percentage points lower than in the previous fiscal year. A major contributing factor to this movement is the significant decline in global oil prices, which started in the third quarter of the fiscal year.

The major decline in oil prices during FY2014/15 stems primarily from low demand resulting from weak economic activity. This is further exacerbated by increased efficiency in production and a shift away from oil towards more energy-efficient solutions. The Jamaican economy is expected to benefit from these developments, specifically the current account balance, where the deficit is expected to improve and trend downwards to a projected 5.3% of GDP by end-FY2014/15. It is expected that a continued decrease in oil prices will result in an improvement over the short-term in the current account deficit, which is expected to reach 2.3% at end-FY2015/16.

Table 4: Medium-term Macroeconomic Profile

	Fiscal Years					
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Macroeconomic Variables	**Actual**	**Actual**	**Est.**	**Proj.**	**Proj.**	**Proj.**
Nominal GDP (J$ billion)	1,340.3	1,459.5	1,574.9	1,689.7	1,832.9	1,999.4
Nominal GDP growth rate (%)	6.2	8.9	7.9	7.3	8.5	9.1
Real GDP growth rate (%)	-0.7	0.9	0.3	1.6	2.0	2.9
Inflation: Annual Pt to Pt (%)	9.1	8.3	5.3	6.3	6.5	6.5
Interest Rates:						
30-day repo rate (eop)	5.75	5.75	5.75	-	-	-
180-day Treasury Bill (avg)	6.60	7.87	7.83	-	-	-
Avg. Exch. Rate (J$=US$1.00)	91.17	103.87	113.24	-	-	-
Oil Prices (WTI) (avg. US$/barrel)	92.1	99.1	81.1	53.1	62.9	62.9

Source: Ministry of Finance and Planning/Bank of Jamaica

4.2 Risk Factors to the Debt Strategy

Key macroeconomic variables - exchange rates, interest rates, inflation, and real GDP are critical to the debt and fiscal trajectories and impact the way in which GOJ securities are viewed by market participants. The Government will attempt to minimize the instability inherent in these variables, despite the potential impact of exogenous shocks.

At present, the debt portfolio is more exposed to exchange rate and interest rate movements than inflation, as only 2.1% of the instruments are inflation-linked. Should there be a 10.0% depreciation of the domestic currency, the debt stock would increase by $123.6 billion, or 7.9%. An increase of 1.0% in interest rates would result in increases in the total interest cost amounting to $6.9 billion or 0.4% of GDP. **Table 5** highlights the impact of increases in interest and exchange rates on the debt stock and interest payments:

Table 5: Impact of Increase in Interest and Exchange Rates on Interest Payments and the Debt Stock

Static Sensitivity Analysis of Interest Payments and Debt Stock using Stock of Debt at end-December 2014 ($millions)					
Depreciation of Domestic Currency		**Baseline**	**1.0%**	**5.0%**	**10.0%**
Debt Stock		-	12,361.62	61,808.11	123,616.21
Debt Stock Change		-	0.6%	3.0%	6.1%
As % of GDP			0.8	3.9	7.9
Interest Rate Increase			**1.0%**	**2.0%**	**8.0%**
Interest Payments :	**Domestic**	-	3,372.95	6,745.90	26,983.61
	Foreign	-	3,494.66	6,989.32	
	Total		**6,867.61**	**13,735.22**	**-**
As a % of GDP			0.4	0.9	-
Dynamic Sensitivity Analysis of Interest Payments and Debt Stock					
Fiscal Year		**2014/15 Est.**	**2015/16 Proj.**	**2016/17 Proj.**	**2017/18 Proj.**
Domestic Interest (% of GDP)					
Baseline		4.87	4.45	3.96	3.55
Interest rate Increase :	**1.0%**	4.92	4.50	4.00	3.58
	5.0%	-	4.68	4.16	3.72
	8.0%	-	4.81	4.28	3.83
External Interest (% of GDP)					
Baseline		3.31	3.34	2.63	2.31
Interest rate Increase :	**1.0%**	-	3.37	2.66	2.33
	2.0%	-	3.40	2.69	2.35
Total Interest (% of GDP)					
Baseline		8.18	7.79	6.59	5.85
External: 2.0%, Domestic:	**8.0%**	-	8.21	6.96	6.18
Debt Stock (% of GDP)					
Baseline		131.57	121.27	115.70	107.36
Depreciation of Currency :	**10.0%**	-	129.81	122.02	114.02

Source: Ministry of Finance and Planning

The following are the potential risks to the macro-economic framework:

- Revenue growth rising at a slower pace than anticipated;
- Non-realisation of expected loan inflows from the multilaterals, which could result in the Government borrowing more from the domestic market at higher interest rates;
- Exogenous shocks including natural disasters which could cause fiscal slippage;
- Increases in commodity prices that could drive the domestic inflation rate upwards;
- Sustained reduction in the NIR occasioned by, *inter alia*, an accelerated deterioration in international trade balances;
- Higher than anticipated depreciation of the local currency vis-à-vis the major international currencies; and
- Increases in expenditures.

SECTION V: MEDIUM-TERM DEBT MANAGEMENT STRATEGY FY 2015/16 - FY 2017/18

The Medium Term Debt Management Strategy analytical toolkit ("the toolkit")[5] developed by the IMF and World Bank, has been used to evaluate different strategies and their cost and risk implications for the debt portfolio. The selection of the Government's debt strategy is based on the results of this evaluation.

The stock of debt used in the model includes only Central Government debt.

5.1. Choice of the strategy for FY2015/16- FY2017/18

In making a determination as to the strategic path the Government should take, four strategies were assessed and analysed using the toolkit. The most appropriate debt strategy was selected following a cost/risk assessment of the impact on the debt portfolio of exogenous shocks (stress-testing).

The chosen debt strategy is described in **Section VI**. It is consistent with the medium-term objective of minimizing cost and mitigating risk and the corresponding indicators expected to be achieved by end-March 2018 are shown in **Table 6.**

Table 6: Cost and Risk Indicators from the Toolkit at end-March 2018-Central Government Debt

Risk Indicators		FY2014/15[6]	As at end-March 2018
Nominal debt as % of GDP		117.4	107.3
Implied interest rate (%)		7.7	8.6
Refinancing risk	ATM External Portfolio (years)	8.1	7.5
	ATM Domestic Portfolio (years)	10.0	8.6
	ATM Total Portfolio (years)	8.9	8.1
Interest rate risk	ATR (years)	6.2	6.3
	Debt refixing in 1yr (% of total)	36.6	32.3
	Fixed rate debt (% of total)	67.6	72.1
FX risk	FX debt as % of total	56.3	41.8
	ST FX debt as % of reserves	37.6	30.6

Source: Ministry of Finance and Planning/MTDS Toolkit

[5] The model is limited in the number of loans that can be used to determine the movement of debt over the medium-term. As a result, eight (8) instruments were used to represent the debt portfolio, and foreign currency loans in the domestic debt portfolio were removed and added to the foreign debt. Foreign currency loans were treated as either market or concessionary.

[6] The Stock of Debt does not include guaranteed and Bank of Jamaica debt.

Table 7: Medium-term Debt Indicators Expected Outcomes FY 2017/18-Total Debt[7]

Indicators	End-Mar 2018
CURRENCY RISK	
Total foreign currency debt/Total debt (%)	63.0
Foreign currency domestic debt in domestic portfolio/Total domestic debt (%)	28.0
INTEREST RATE RISK	
Total Debt	
Fixed Rate	70.0
Floating Rate	30.0
Domestic Debt	
Floating rate*	30.0
Inflation-linked	2.1
External Debt:	
Fixed-rate	70.0
Floating rate	30.0
REFINANCING RISK	
Maturity structure	
Average Maturity (years)	≥9.0
% Maturing in 1 year	≤10.0

Source: Ministry of Finance and Planning

***Inflation-linked Bonds included in the floating rate**

[7] Total debt here is defined as Bank of Jamaica, Central Government and external guaranteed debt.

SECTION VI: ISSUANCE STRATEGY -FY2015/16

6.1. Issuance Strategy:

The Government will issue 80.0% fixed-rate securities and 20.0% variable-rate securities in the domestic market, while securing loans in the external market.

This strategy entails the Government issuing fixed-rate and variable-rate instruments in an 80:20 mix, with the greater portion being allotted to fixed-rate instruments. This aligns with the Government's continued objective which includes gradually increasing the proportion of fixed-rate debt to floating-rate debt in the portfolio. Additionally, the strategy allows for the borrowing of funds from the external markets to finance maturing debt.

The strategy is consistent with the Government's medium-term debt targets, which includes increasing the proportion of fixed-rate debt, extending and sustaining a reasonably long ATM and maintaining the foreign currency debt within the portfolio at acceptable levels. This strategy is also in line with the baseline economic assumptions regarding the domestic and external capital markets. It takes into account these needs and underlying assumptions, at a tolerable level of cost/risk tradeoff.

6.2. Domestic Market

The issuance strategy for FY2015/16 reflects the GOJ guidelines which include the gradual increase in the share of fixed-rate debt to floating-rate debt. Further, this aligns with the Government's major objective of maintaining risk at prudent levels while improving the maturity structure by extending maturities. The development of the domestic market involves the continued engagement of market participants through the Investor Relations Programme and the introduction of new instruments geared at renewing interest and demand for GOJ securities. The GOJ plans to gradually re-enter the market in FY2015/16 by tapping the short to medium term segments of the yield curve, while being cognizant of the bunching of maturities and the potential refinancing risks.

Market development will be further enhanced through the issuance of some securities using the auction system on the JamClear Central Securities Depository (JamClear-CSD) platform. By utilizing this system, the GOJ will be a price-taker, as prices will be market-determined. Additionally, there will be increased levels of transparency in the pricing of instruments.

6.2.1. Fixed-Rate Debt

During FY2015/16, fixed-rate debt will be secured with varying maturities. Consequent on successful short- and medium-term issuances, the Government will issue instruments with longer tenors on a phased basis in an effort to maintain a long ATM. Additionally, the Government will issue some instruments along the shorter end of the yield curve, with maturities of two years or less, recognizing that some investors are only able to undertake short to medium term investments.

6.2.2. Variable-Rate Debt

The Strategy dictates that variable-rate instruments will be issued, giving consideration to the prescribed 30.0% target as outlined in **Table 8**. In keeping with the strategy applied to the fixed-rate, the debt will be raised with varying maturities. In the domestic market, the Government will re-open some benchmarks with tenors of two years or less. Issuances in the designated series will, among other things, be geared towards improving liquidity and helping to generate interest in secondary market trading.

6.2.3. PetroCaribe Development Fund Debt

To complement domestic market issuances, the GOJ will secure US$250.0 million from the PCDF. The Government intends to restrict the share of foreign currency debt in the domestic portfolio to no more than 28.0% over the medium-term. Therefore, despite the inherent exchange-rate risk associated with these loans, they continue to be desirable as they fit well with the overall cost/risk objectives.

6.3. External Debt

The Government will access the ICM for budgetary support, in the amount of US$250.0 million. Over the medium-term, the GOJ will implement policies to increase the efficiency of the external yield curve. This will be achieved through market-friendly liability management exercises, including buy-backs of high yield off-the-run securities and debt swaps.

The GOJ intends to pursue debt-for-nature and debt-for-health swaps. The benefit of these arrangements is primarily a reduction in the debt stock. The successful execution of these debt swaps will allow the GOJ to funnel much-needed resources to the health and agriculture/nature sectors.

6.4. Liquidity Buffers

Liquidity buffers can play an important role in reducing refinancing risk. Consequently, the GOJ will seek to actively pre-fund maturities as part of its ongoing operations, and gradually build cash buffers to cover at least three months of debt finance costs.

Of note, the strategy is supported by the PDMA, as the Minister with responsibility for Finance, or his designate, is vested with the authority to borrow resources to meet budgetary obligations. Specifically, Section 6 of the Act states that the Minister may, taking account of debt management objectives and the Debt Management Strategy, undertake portfolio management operations including roll-overs, swaps and other derivative transactions, buybacks, switches and redemption of Government's debt instruments.

6.5. Expected Outcome

The debt portfolio utilizes specific quantitative targets and outcomes, and it is on these benchmarks that the MTDS is based. The existing macroeconomic environment is the baseline on which the strategy is predicated. However, potential changes to this environment have been taken into account in the design of the strategy. Consequently, limits and bands are established for strategic benchmarks for FY2015/16, and are intended to provide the Government with some degree of flexibility to operate in the event of economic shocks. Below are the quantitative targets for FY2015/16 in **Table 8**.

Table 8: Debt Indicators: Strategic Benchmarks end-March 2016

Indicators	Limits end-March 2016	
	Minimum	Maximum
CURRENCY RISK		
Total foreign currency debt/Total debt (%)	61.0	63.0
Foreign currency Domestic debt/total domestic debt (%)	24.0	26.0
INTEREST RATE RISK		
Total Debt		
Fixed Rate	67.0	70.0
Floating Rate	30.0	33.0
Domestic Debt:		
Fixed-rate	68.0	70.0
*Floating rate	30.0	33.0
Inflation-linked	-	2.1
External debt		
Fixed-rate	61.0	64.0
Floating rate	35.0	39.0
REFINANCING RISK		
Maturity structure		
Average Maturity (years)	9.0	-
% Maturing in 1 year	-	8.0

Source: Ministry of Finance and Planning

*Inflation-linked Bonds included in the floating rate

SECTION VII: ANNUAL BORROWING PLAN FOR FY2015/16

The annual financing requirement, which is determined by the fiscal balance plus amortization less available resources, is projected at $128,930.3 million or 7.6% of GDP for FY2015/16. This represents a marked decrease when compared to the financing requirement of approximately 10.4% of GDP in FY2014/15. The Government intends to finance this gap from both domestic and external sources.

Funding from external sources is projected to be $72,592.2 million or US$600.3 million. This will include multilateral loans in the form of budget support and investment loans, and bond issuance in the ICM.

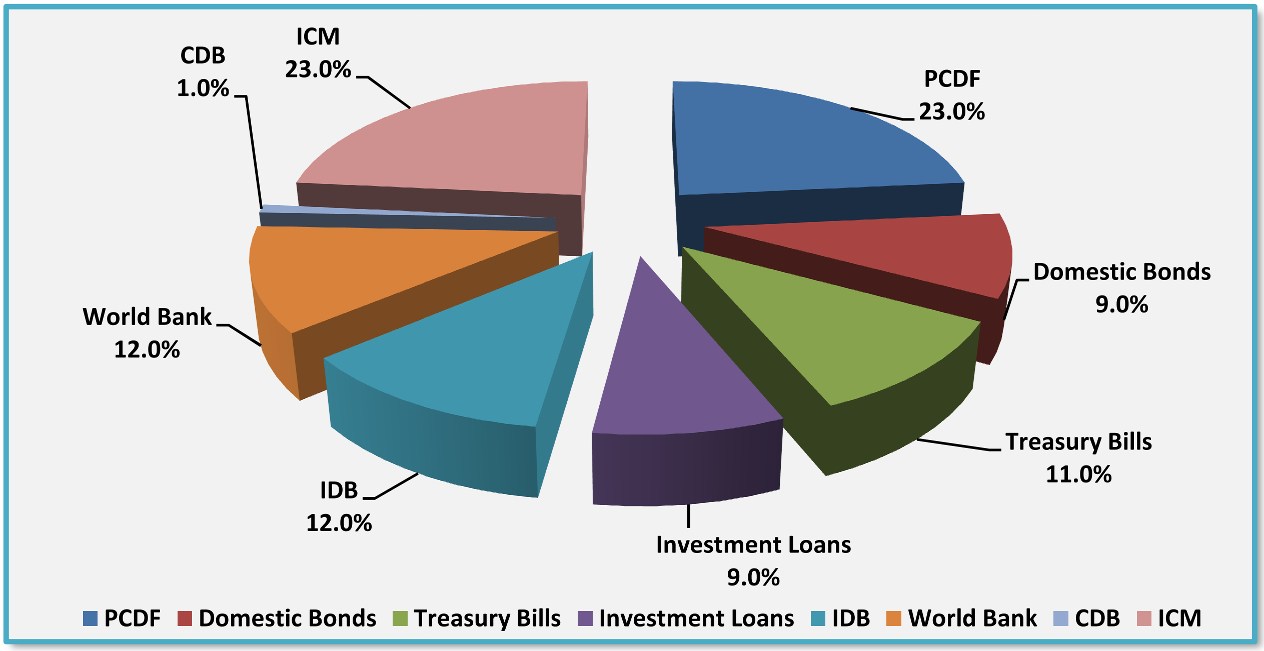
Domestic funding is projected at $56,338.0 million, and will be sourced from the PetroCaribe Fund in the amount of $30,232.5 million, and an estimated $26,105.5 million from domestic market issues.

Table 9: Financing Requirement for FY2015/16

Annual Borrowing Plan FY2015/16	
DOMESTIC (mn)	**$56,338.0**
PetroCaribe	$30, 232.5
Market Issues	$12,105.5
Treasury Bill	$14,000.0
EXTERNAL (mn)	**$72,592.2**
Investment loans	$10,917.9
PBL/DPL Loans	$31,441.8
ICM	$30, 232.5
Total (mn)	**$128,930.3**

Source: Ministry of Finance and Planning

ANNUAL BORROWING PLAN FY2015/16



During FY2015/16, subsequent to consultations with key market players and the Bank of Jamaica, the Government plans a phased re-entry into the domestic securities market during the first quarter of the fiscal year, which is intended to ultimately re-activate secondary market trading in government securities.

To this end, the Government plans to increase the current menu of benchmark bonds with six (6) new issues at the short to medium end of the curve and will maintain the issuance strategy, market conditions permitting, to create on-the-run benchmark notes at various segments along the yield curve. A 273-day Tranche Treasury Bill will also be reintroduced as part of domestic financing.

7.1 Re-activation of Government bond issuance in the domestic market

An objective of Jamaica's debt management strategy is the continued development of the domestic capital market. Over the years, the operations of the domestic capital market were effective and functional, and the Government played its role in the development of the market.

A developed government debt market includes efficient money and primary markets, access to a diversified investor base, active secondary markets, a sound securities custody and settlement system and robust regulation[8]. By these standards, Jamaica's domestic market is relatively well-developed, having legal, tax, and regulatory infrastructure; smooth and secure depository and settlement arrangements; and a liberalized financial system with competing intermediaries.

In keeping with the objectives and strategies of previous years, the Government executed two liability management exercises toward the end of FY2009/10 and FY2012/13. The first exercise, marketed as the Jamaica Debt Exchange (JDX), transformed three hundred and fifty small, illiquid securities into twenty-five large liquid benchmark issues that effectively realigned the domestic portfolio and reduced refinancing risk. Most importantly, it laid the foundation for secondary trading of the GOJ securities and further development of the secondary market. The second exercise, the National Debt Exchange (NDX), further realigned the portfolio through the extension of maturities and reduction of interest rates.

Following execution of the NDX in February 2013, the Government took a strategic decision to access concessional funding from the multilaterals and the PCDF. Consequently, no debt issuance was made in the domestic securities market during FY2013/14, which in addition to the NDX limited activity in secondary market trading. The effect of the NDX on the books of some investors was a realization of income and capital loss, arising from reduced interest rates and reduced market liquidity due to the extension of maturities.

The subsequent reduction in confidence in the general economy, wariness on the part of the securities market and reluctance to accumulate additional GOJ assets resulted in an inactive domestic secondary market and lack of accessibility of the primary market for the issuance of GOJ securities.

During FY2014/15, the Jamaican economy experienced marked improvements in vital macroeconomic variables including inflation, GDP, NIR, relative stability of the Jamaica

[8] The World Bank (2007). "Developing the Domestic Government Debt Market: From Diagnostics to Reform Implementation."

dollar during the second and third quarters and improved market liquidity, through liquidity injections by the Central Bank. The positive outturn in these indicators set the stage for improved investor confidence which manifested itself in the gradual reduction in the signal interest rates, namely, the 3-month and 6-month Treasury Bill yields which trended down by 139bps and 197bps respectively, relative to the rates prevailing at the end of FY2013/14.

During the year, the Debt Management Branch's Investor Relations Programme was formalized and strengthened, and served as a conduit for greater dialogue and better understanding of the market's expectations regarding Government securities. Trend analysis of the posture towards GOJ securities has shown an improvement in the levels of support for these issues. Accordingly, a phased re-entry into the securities market is planned for FY2015/16, that will involve tapping the short- and medium-term segments of the yield curve, with due consideration to the bunching of maturities and refinancing risks inherent in this strategy.

Additionally, in the interest of further stimulating demand for its securities, the Government will introduce new instrument types that take into account the market players' feedback. Consideration will also be given to adopting the approaches of other emerging market economies that are relevant to the Jamaican situation, with a view to increasing GOJ's activity in the market and a return to pre-NDX levels.

Pension schemes can have a critical impact on capital availability and liquidity. Recently announced pension reforms to be effected in FY2015/16 and the consequent sensitization of the public on pension planning should fuel demand from pension funds for GOJ issuances at the long end of the curve. In this regard, the Government will initially seek to reopen existing long-dated instruments and issue new instruments where appropriate, based on investor demand.

Part of the EFF requirements included legislative and regulatory reforms to the financial sector, particularly to the securities market, which included, *inter alia*, the phasing down of retail repos and the migration to Collective Investment Schemes (CIS). The objective of this reform is to protect investors from potential systemic failure arising from the possible collapse of individual securities dealers, and to mitigate any contagion risks to the broader financial sector. Initially, the intention was to phase out the repo operations at a targeted date, but representation and consultative actions of stakeholders resulted in a decision to phase down instead.

Indications are that the potential size of the repo market was just under $317.50 billion as at September 30, 2014, comprising mainly Jamaica dollar and US dollar-denominated corporate and sovereign bonds, of which the majority represented GOJ securities. The modus operandi of the repo operations involved retention of the ownership of the underlying securities by the securities dealers. Consequently, the risks that were inherent in owning and intermediating a large portfolio of government securities, namely: concentration, interest rate and liquidity risks remained on the securities dealers' balance sheets.

These risks were not matched by sufficient capital and liquidity to withstand an adverse scenario. One implication of this situation for the Government was a potential increase in funding costs. The Government was, however, not active in the market during the transition period and inactivity proved to be favourable to the Government. Market intelligence has indicated that there has since been a gradual injection of liquidity into the market that could support GOJ issuances. To this end, the GOJ will keep abreast of market developments with a view to taking strategic and opportunistic steps to tap the market. In addition, the volume of Treasury Bills issued will be increased.

During FY2015/16, the GOJ will continue with its policy of transparency in its debt operations through the provision of timely reports and statistics on the debt and on debt management operations via a range of communication channels. Further, pursuant to the debt management mandate of promoting innovations in instruments and issuance techniques, the Government will support market initiatives that will foster a deeper and more liquid securities market.

The continuation of the following activities will be undertaken in pursuance of the goals articulated in this section:

- Development of an Investor Relations programme and comprehensive communication strategy;

- Market consultations with key stakeholders to enable tapping the long end of the yield curve;

- Increased co-ordination with the BOJ in relation to each party's roles, responsibilities and obligations in all aspects of public debt management; and

- Recommendations for enhancements to the JamClear Central Securities Depository System.

In keeping with debt management best practice of transparency, a calendar of issuances programmed for the first half of the fiscal year (**Q1** and **Q2**) is presented in **Table 10**. The Schedule of Treasury Bill Tenders for FY2015/16 is presented in **Table 11**.

ISSUE OF GOVERNMENT OF JAMAICA SECURITIES FOR THE PERIOD APRIL 2015 TO SEPTEMBER 2015

Table 10: Issue of Government of Jamaica Securities for the Period April 2015– September 2015

TENDER DATE	
Q1	**INSTRUMENT TYPE**
April 2015	No Planned Bond Issuances
May 27 – 29, 2015	New Issue FR Benchmark Note – Due 2017 New Issue VR Benchmark Note – Due 2017
June 24 – 26, 2015	Reopen FR Benchmark Note – Due 2017 Reopen VR Benchmark Note – Due 2017
Q2	**INSTRUMENT TYPE**
July 29 – 31, 2015	New Issue FR Benchmark Note – Due 2018 New Issue VR Benchmark Note – Due 2018
August 26– 28, 2015	Reopen FR Benchmark Note – Due 2017 Reopen VR Benchmark Note – Due 2017
September 23 – 25, 2015	New Issue FR Benchmark Note – Due 2021 New Issue VR Benchmark Note – Due 2021

PLEASE NOTE THAT THE ABOVE SCHEDULE IS SUBJECT TO CHANGE

Table 11: Proposed Schedule for Treasury Bill Tenders for FY2015/16

Proposed Schedule for Treasury Bills Tenders For Fiscal Year 2015/16		
Proposed Treasury Bill Tranche	**Proposed Tender Date**	**Proposed Issue Date**
Quarter 1		
1-month T/Bill	April 15, 2015	April 17, 2015
3 & 6-month T/Bills	April 22, 2015	April 24, 2015
1-month T/Bill	May 13, 2015	May 15, 2015
3, & 6 month T/Bills 9-month T/Bills (*New Tranche*)	May 20, 2015	May 22, 2015
1, 3 & 6-month T/Bills	June 17, 2015	June 19, 2015
Quarter 2		
1-month T/Bill	July 15, 2015	July 17, 2015
3 & 6-month T/Bills	July 22, 2015	July 24, 2015
1-month T/Bills	August 12, 2015	August 14, 2015
3, & 6 month T/Bills 9-month T/Bills (*New Tranche)*	August 19, 2015	August 21, 2015
1, 3 & 6-month T/Bills	September 16, 2015	September 18 2015
Quarter 3		
1-month T/Bill	October 14, 2015	October 16, 2015
3 & 6-month T/Bills	October 21, 2015	October 23, 2015
1, 3, & 6 month T/Bills 9-month T/Bills (*New Tranche)*	November 18, 2015	November 20, 2015
1, 3 & 6-month T/Bills	December 16, 2015	December 18, 2015
Quarter 4		
1-month T/Bill	January 13, 2016	January 15 2016
3 & 6-month T/Bills	January 20, 2016	January 22, 2016
1, 3, & 6 month T/Bills 9-month T/Bills (*New Tranche)*	February 17, 2016	February 19, 2016
1, 3 & 6-month T/Bills	March 16, 2016	March 18, 2016

GLOSSARY

Amortization

Amortization 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 comparable liquidity, issue size and coupon. Government bonds are almost always used as benchmark.

Collective Investment Scheme

A Collective Investment Scheme, in essence, refers to any scheme, whether in Jamaica or elsewhere, whereby members of the public are invited to invest (a) in a portfolio of assets managed by or on behalf of the scheme; OR (b) on terms where investors hold a participating interest in receiving profits or income and share in the risk and benefits of the scheme. In Jamaica, the law provides for only two types of collective investment schemes: unit trusts and mutual funds, which are governed by the Unit Trusts Act (2001) and the Securities (Mutual Funds) Regulations (1999), respectively.

Contingent Liabilities

Contingent liabilities are obligations that materialize 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 for Nature Swap

An arrangement whereby a foreign debt owed by a developing country is transferred to a particular organization, typically in return for the country's committing itself to specified conservation measures.

Debt for Health Swap

An arrangement whereby the creditor forgives debt on the condition that the debtor makes available some specified amount of local currency funding to be used for developmental health purposes.

Debt Service Payments

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

Fiscal Responsibility Framework

The Fiscal Responsibility Framework, which came into effect October 1, 2010, is an encompassing framework which has, at its centre, fiscal rules that are designed to achieve desired fiscal outcomes, most notably, a reduction in, and maintenance of, a sustainable level of debt.

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.

Investment Loan

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

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.

Public Debt Charges

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

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.

Repo (Repurchase Agreement)

A repurchase agreement, or repo, is a type of short-term loan often used in the money markets, whereby the seller of a security agrees to buy it back at a specified price and time. The seller pays an interest rate known as the repo rate, when buying back the securities.

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 currently 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.