



# Jamaica's New Economic Programme and Exchange Offer

February 12, 2013

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## Government of Jamaica

- **Hon. Portia Simpson-Miller**
  - Prime Minister
- **Peter Phillips**
  - Minister of Finance and Planning
- **Brian Wynter**
  - Governor – Bank of Jamaica
- **Devon Rowe**
  - Financial Secretary – Ministry of Finance and Planning
- **Pamella McLaren**
  - Senior Director Debt Management Branch – Ministry of Finance and Planning

## IMF

- **Jan Kees Martijn**
  - Jamaica Mission Chief

# Agenda



- Current State of Affairs
- Economic Programme
- Monetary Policy & Financial System
- Exchange Offer: Transaction Details
- Impact of Jamaica's New Programme

# Current State of Affairs



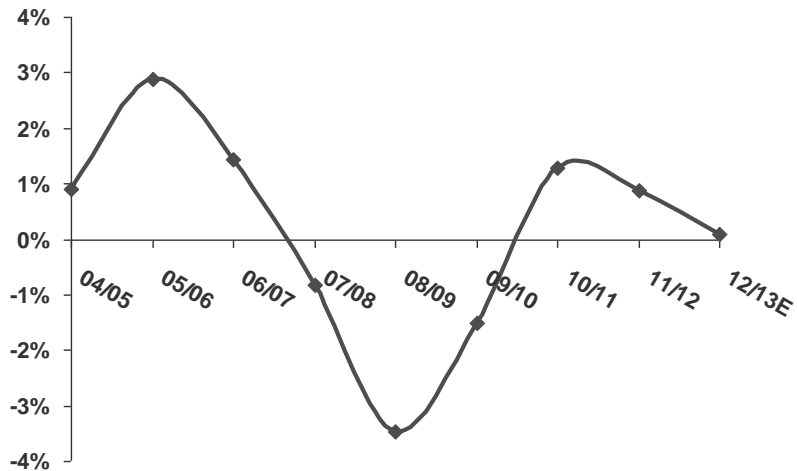


- High Debt/GDP ratio
- Interest cost crowding out public investment and services
- High dependence on market debt rather than subsidized bilateral / multilateral debt
- Fiscal challenges
- Economic growth subdued and bottlenecks preventing realization of full potential

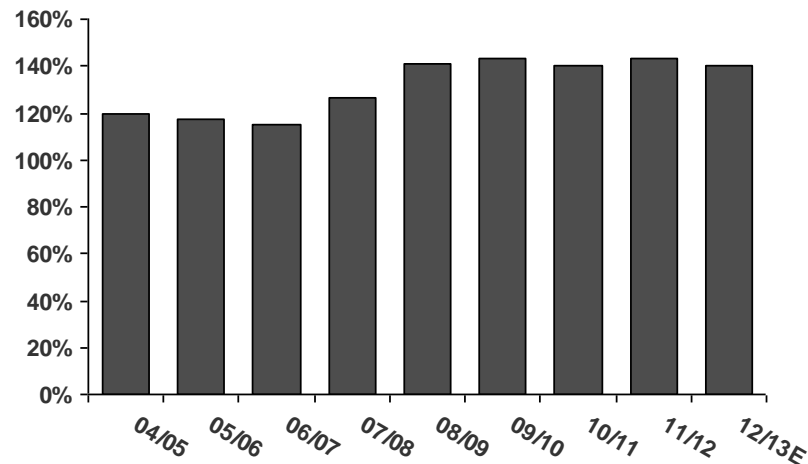
# Economic Overview



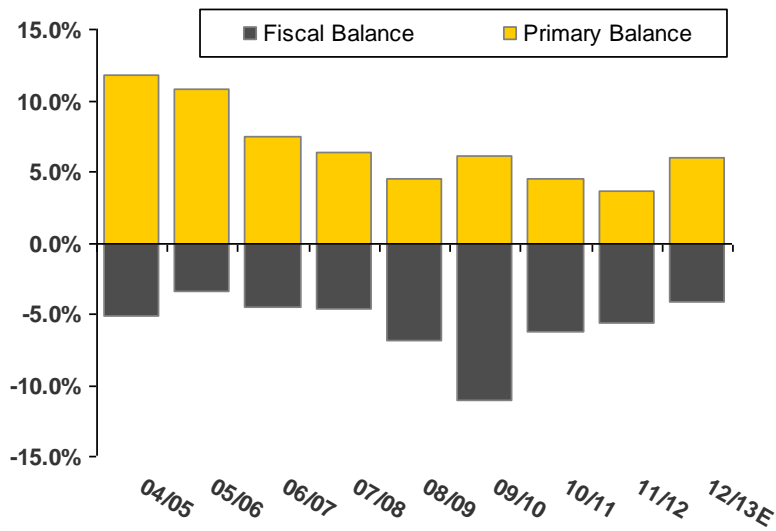
## Real GDP Growth



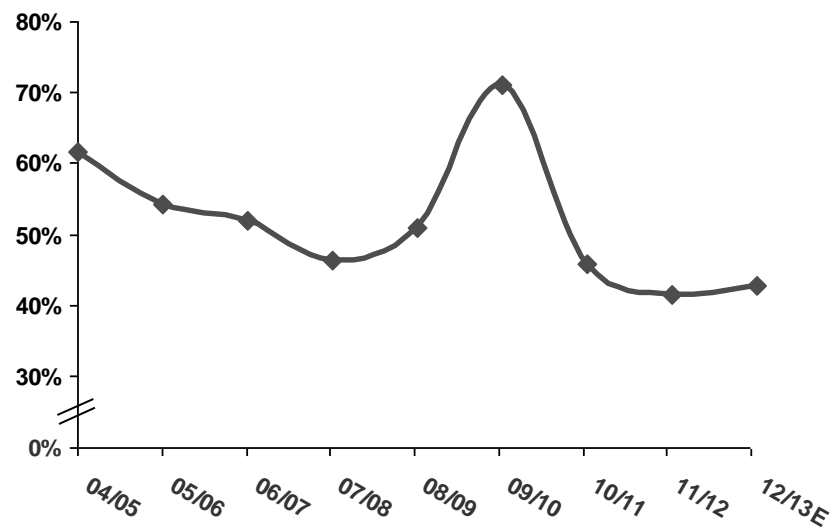
## Debt / GDP



## Fiscal & Primary Balances



## Interest as % of Tax Revenues





- Why are we doing an IMF Programme?
  - Provides internationally recognized seal of approval for our economic plan
  - Allows for low cost multilateral funding and balance of payments support
- What are our Prior Actions?
  - ✓ Debt Law
  - Debt Swap
  - Wage Deal
  - Discretionary Waivers



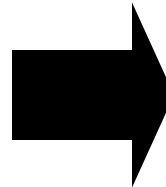
# Economic Programme





## Objectives

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



## Pillars

- Growth, competitive and ease of doing business initiatives
- Active debt management
- Low cost multilateral and bilateral funding
- Fiscal consolidation strategy and structural/governance reform



- Reduction of the overall public sector deficit
  - Immediate revenue enhancement measures
  - Medium term ~7.5% primary surplus
- Revenues
  - Comprehensive Tax Reform
    - Virtual elimination of waivers
    - Simplification and broadening of the tax base
  - Tax Administration Reform
  - Continued Divestments
- Expenditures
  - Interest cost reduction
  - Wages and Salaries, public sector wage gap (9% of GDP by 2015/2016)
  - Pension Reform



- Efficient management and compliance with our programme
  - Strengthen Fiscal Responsibility Framework
  - Implement Public Sector Transformation
- Tax Administration Reform
  - Increase resources
  - Improve system and process
  - Increase autonomy and powers
- Continue rollout of Central Treasury Management System (CTMS)
- Privatization of select public sector bodies



- **2013 Fiscal Matters**

- Legislation to establish TAJ as a Semi-Autonomous Revenue Authority
- Legislation to introduce a debt write-off policy for tax arrears, inclusive of IPS
- Revenue Administration Act (RAA)
- Omnibus Tax Incentive Act
- Charities Bill
- New regime under Charities Act
- Legally Binding Fiscal Rule

- **2013 Financial Matters**

- Secured Obligations Bill
- Legislation providing a framework for a modern insolvency regime
- Framework (remove legal restrictions) for collective investment schemes (CIS)
- Legal and institutional reforms regarding unlawful financial operations
- Legislation to reform the bankruptcy law



- Enhanced target setting with the IMF
- Establish a compliance office
- Economic Programme Oversight Committee including:
  - Major creditors
  - Private sector
  - Trade unions

# Growth Agenda



- Fiscal consolidation with floors on capital spending and social protection
- Public debt reduction will stop crowding out and increase availability of private sector credit
- Facilitation of high impact investment in key sectors:
  - Tourism
  - Infrastructure, Transport & Logistics
  - Information and Communications Technology (ICT)
  - Energy
- Ease of Doing Business Initiative
  - Business Environment Enhancement
    - Simplified business processes including: streamlined process for business registration, dedicated commercial court for the expedited resolution of commercial disputes; reform of the insolvency regime
  - Enhance access to credit, secured obligations framework
- Public Private Partnership (PPP) - targeted investment initiative and partnerships with the private sector

# Monetary Policy & Financial System







- Reduce Inflation to trading partner levels
- Maintain flexible Exchange Rate
  - The BOJ will continue to manage the monetary policy within the framework of a managed floating exchange rate regime
- Increase Reserves
- Strengthen Financial System
  - Increase BOJ regulatory powers and responsibility for financial stability
  - Financial System Support Fund (FSSF)

# National Debt Exchange Offer (“NDX”)





## **Rationale:**

- Lower financing costs & risk as part of economic programme and associated national burden sharing
- Include substantially all domestic bonds

## **Design:**

- ~1.25% annual GDP savings on interest expense, allowing for equivalent annual debt reduction as % of GDP (\$17 billion/yr)
- Minimize impact on bondholders and maintain financial stability
- Smooth income hit over time and over instruments
- Offer special instruments including:
  - 1 year Retail Note
  - New 2040 CPI Note for Pensions

# Exchange Offer Options



- \$100 of Old Benchmark Notes → \$100 of New Benchmark Notes
  - **Old VR → New VR**
    - eg. Old VR 2018 exchanged for New VR 2023
  - **Old FR → New FR**
    - eg. Old 12.75% 2019 FR exchanged for New 11.00% 2024 FR
  - **Old US\$ → New US\$**
    - eg. Old 7.25% 2016 US\$ exchanged for New 5.25% 2020 US\$
  - **Old CPI → New CPI**
    - eg. Old 2022 CPI exchanged for New 2025 CPI

“Eligible Investors” – Jamaican residents in possession of Old Notes issued prior to the launch of this offering

# New Benchmark Bonds Pricing Terms



## J\$ Local Variable Rate Old Notes

Current Margin	Old Bond	New Bond	New Maturity Date	New Margin	Step-up Date	Step-up Margin	Eligible for FRAN Option?
1.000%	VR 2013	VR 2018	07/11/18	0.25%	--	--	Yes
1.000%	VR 2013A	VR 2018	07/11/18	0.25%	--	--	Yes
1.375%	VR 2013B	VR 2018	07/11/18	0.25%	--	--	Yes
1.375%	VR 2014	VR 2019	09/11/19	0.25%	--	--	Yes
1.250%	VR 2015	VR 2020	10/07/20	0.25%	--	--	Yes
1.375%	VR 2017	VR 2020	10/07/20	0.25%	--	--	Yes
1.375%	VR 2018	VR 2023	01/13/23	0.375%	--	--	Yes
1.500%	VR 2020	VR 2025	03/12/25	0.375%	3/12/24	1.125%	Yes
1.375%	VR 2020A	VR 2025	03/12/25	0.375%	3/12/24	1.125%	Yes
1.375%	VR 2022	VR 2025	03/12/25	0.375%	3/12/24	1.125%	Yes
1.500%	VR 2027	VR 2035	06/13/35	0.50%	3/13/24	1.250%	Yes
1.500%	VR 2032	VR 2035	06/13/35	0.50%	3/13/24	1.250%	Yes

## J\$ Local Fixed Rate Old Notes

Current Coupon	Old Bond	New Bond	New Maturity Date	New Bond Coupon	Step-up Date	Step-up Coupon	Eligible for FRAN Option?
12.250%	FR 2013	FR 2016	02/10/16	7.250%	--	--	Yes
12.500%	FR 2014 – 12.5%	FR 2017	05/10/17	7.500%	--	--	Yes
12.000%	FR 2014 – 12.0%	FR 2017	05/10/17	7.500%	--	--	Yes
10.000%	FR 2015 – 10.0%	FR 2018	02/24/18	7.750%	--	--	Yes
12.625%	FR 2016	FR 2019	07/12/19	8.500%	--	--	Yes
12.750%	FR 2019	FR 2024	10/09/24	11.000%	--	--	Yes
12.875%	FR 2024	FR 2030	12/11/30	11.875%	--	--	Yes
13.250%	FR 2040	FR 2050	12/14/50	12.250%	--	--	Yes
12.250%	FR 2046	FR 2046	04/27/46	11.250%	--	--	Yes

## USD Local Old Notes

Current Coupon	Old Bond	New Bond	New Maturity Date	New Bond Coupon
6.750%	USD 2013	USD 2020A	03/11/20	5.25%
7.250%	USD 2016	USD 2020B	05/11/20	5.25%

## CPI Old Notes

Current Coupon	Old Bond	New Bond	New Maturity Date	New Bond Coupon
3.0% step to 4%	CPI 2022	CPI 2025	02/24/25	2.0% step to 3.0%
3.5% step to 4.25%	CPI 2030	CPI 2033	02/22/33	2.5% step to 3.25%

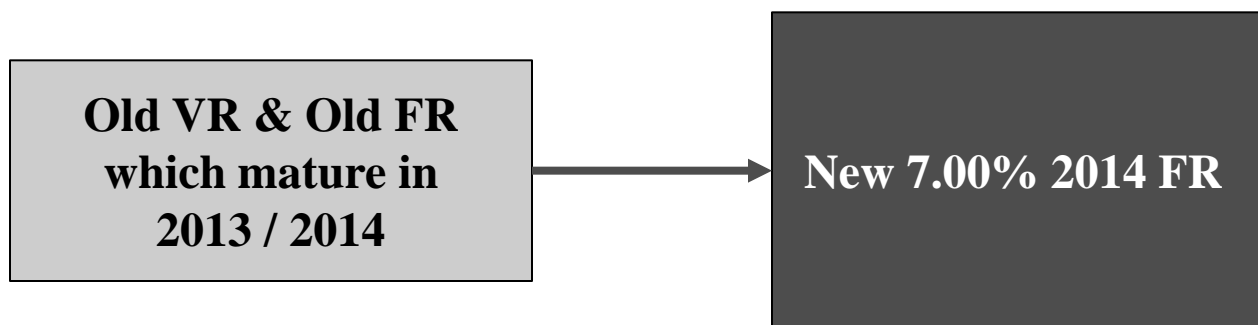
### Call Options:

- VR's callable 3-5 years prior to maturity (in most cases)
- FRs non-call life
- USD callable
- CPI non-call life

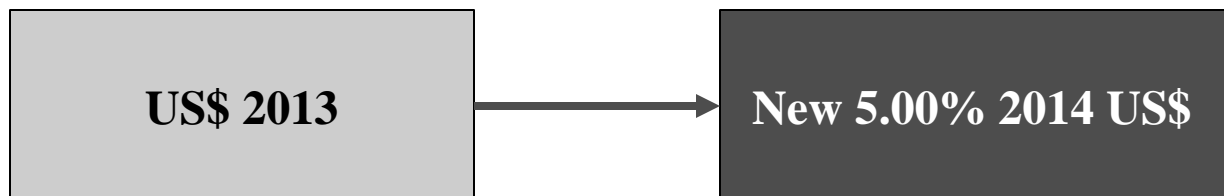
# Retail Offer



- Holders of \$25mm or less or US\$200k of Old VR, FR and US\$ Notes maturing in 2013 & 2014 may opt for New Retail Notes which will mature in 2014
- **Old VR 2013 & 2014 and FR 2013 & 2014 → New 7.00% 2014 FR**

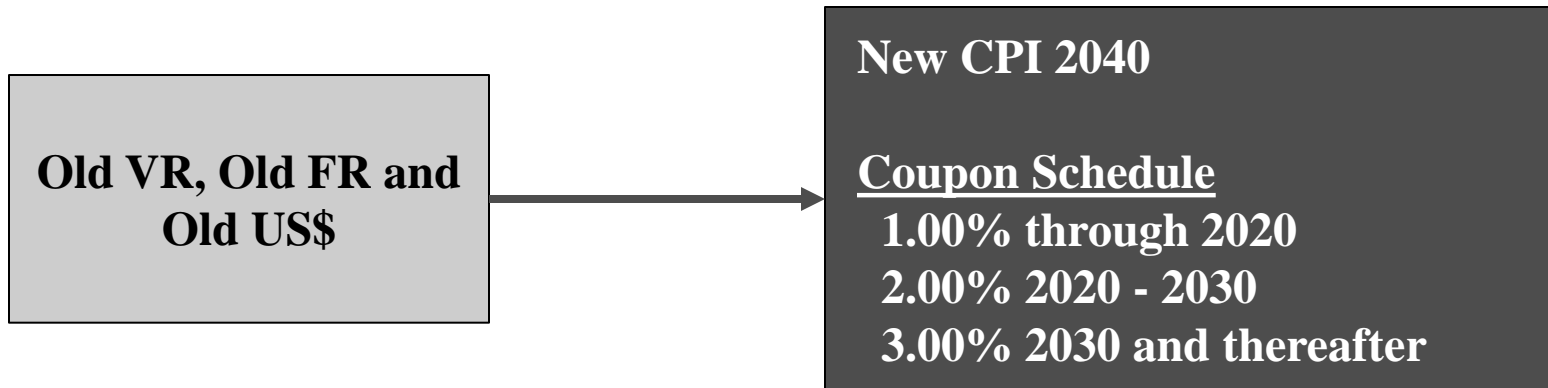


- **Old US\$ 2013 → New 5.00% 2014 US\$**





- Specifically designed to accommodate pension and other similar long dated/asset-liability focused accounts while offering the GoJ upfront cash flow
- **New CPI 2040**

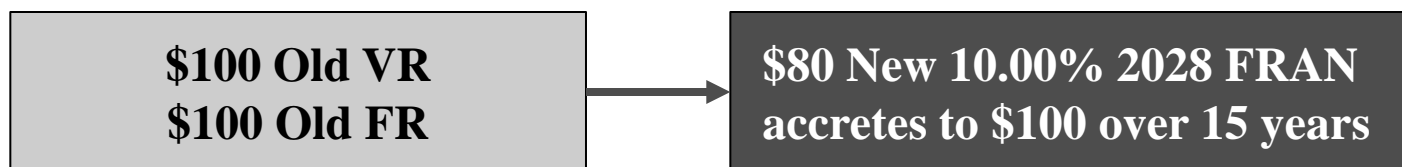


\* All Eligible holders may opt for the New CPI 2040

# FRAN Notes “Fixed Rate Accreting Note”



- Old VR & Old FR, \$100 → \$80 **New FRAN, 15 year 10.00%** accreting Notes

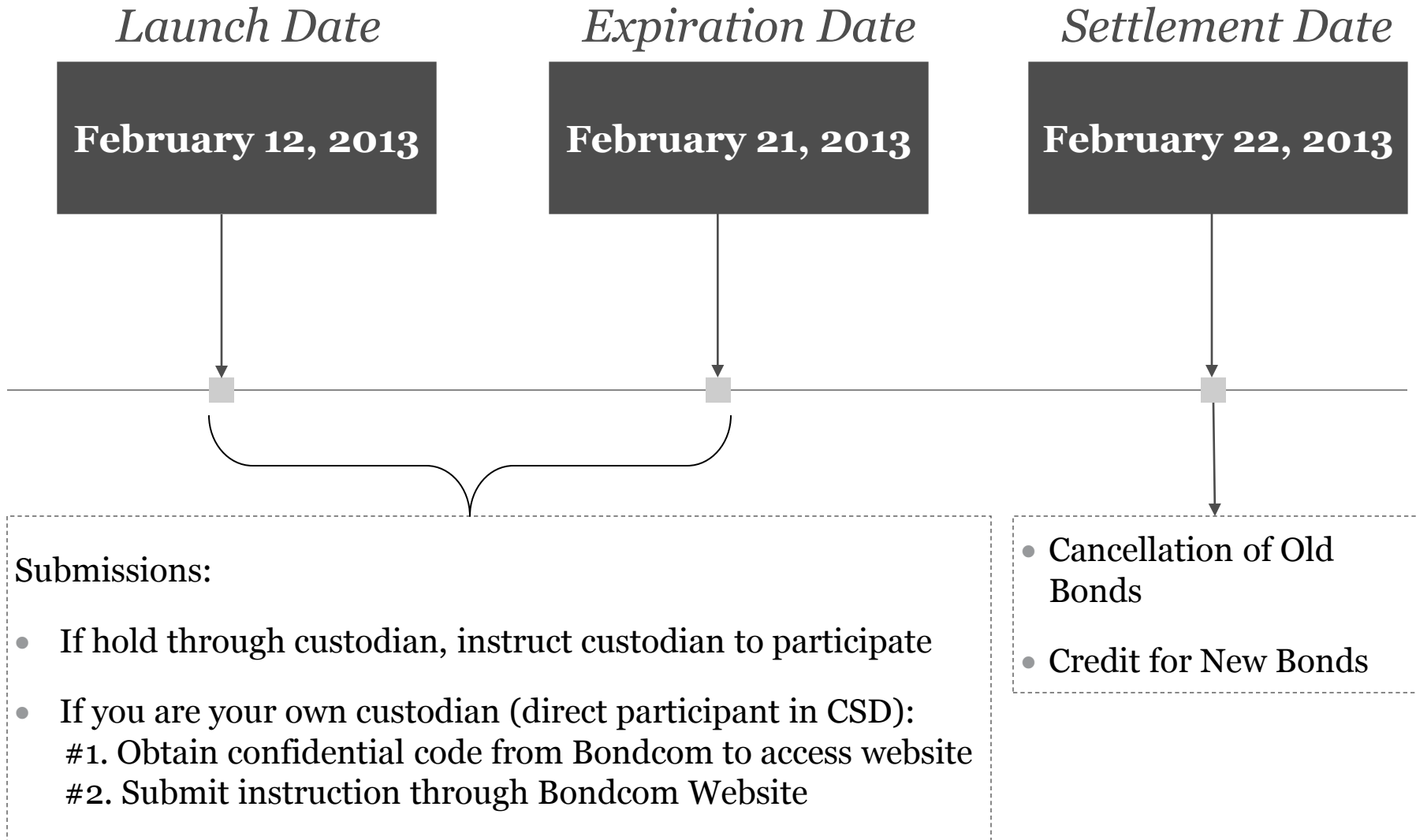


\* Eligible: Holders of Old VR and Old FR Notes

- Designed for certain state-owned focusing on full principal recovery, and less concerned with accounting and yield today
- The principal accretes at the following:
- Starting in August 2015, the principal will accrete:
  - 0.50% per 6 months until 2021
  - thereafter, 1.00% per 6 Months until 2027
  - thereafter, 1.50% accretion per 6 Months until Maturity



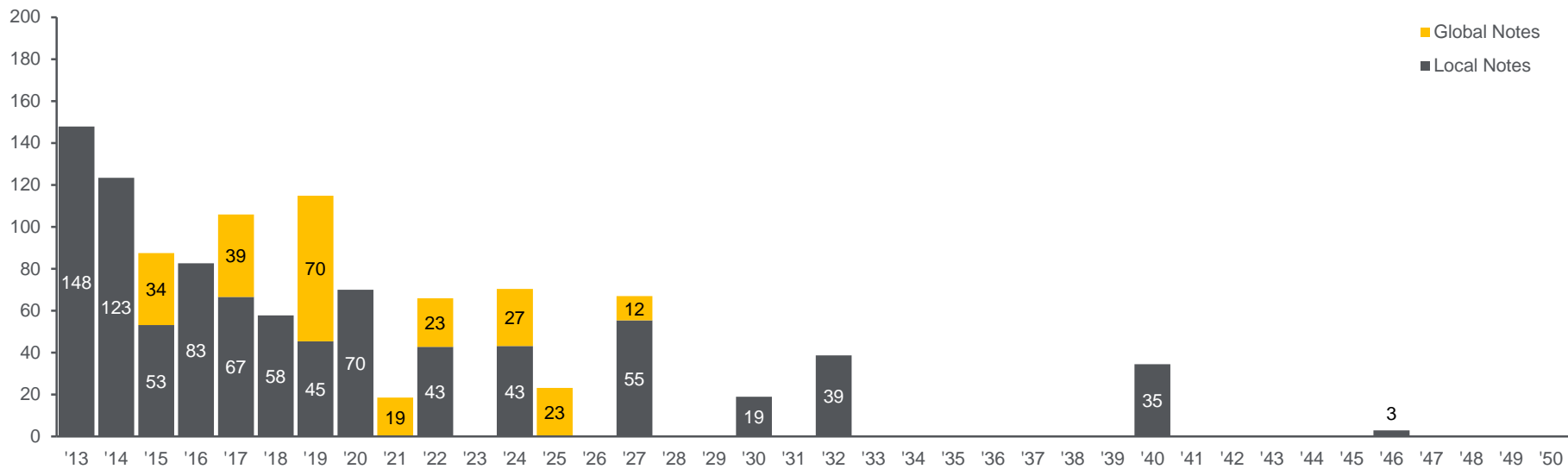
# Transaction Processing Timeline



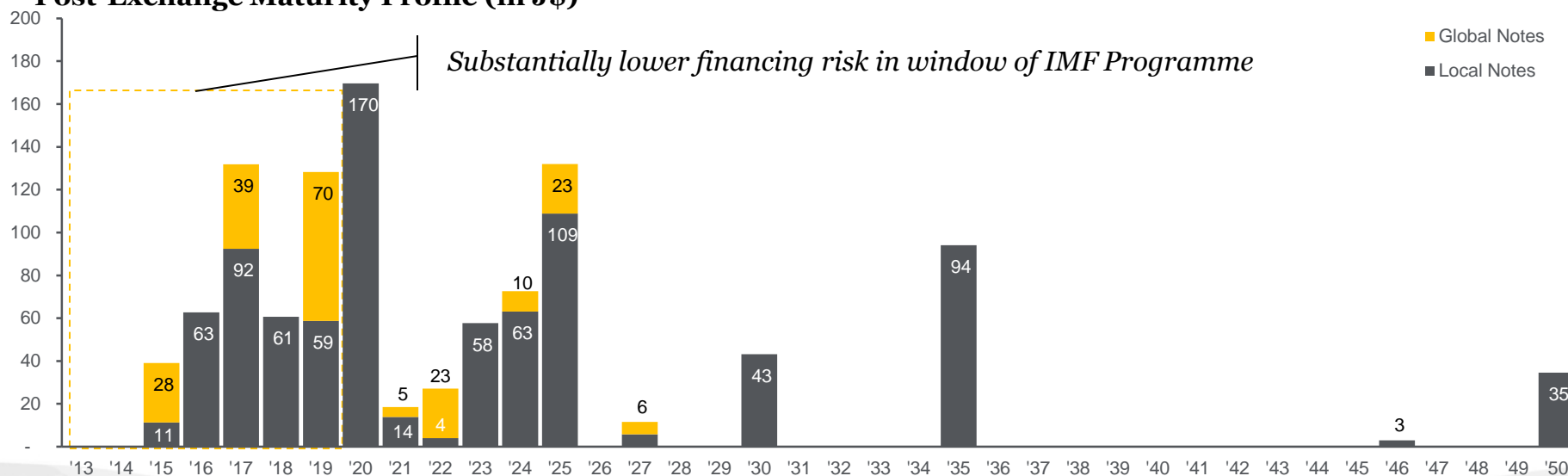
# Impact of Transaction



## Pre-Exchange Maturity Profile (in J\$)



## Post-Exchange Maturity Profile (in J\$)





- We must do this for debt sustainability
- We must do this as prior action with the IMF

# Appendix



# FRAN Notes Accretion Schedule



Date	Nominal Outstanding	Interest Paid	Principal Paid
Issuance	\$80.00	--	--
8/15/2013	\$80.00	4.000%	--
2/15/2014	\$80.00	4.000%	--
8/15/2014	\$80.00	4.000%	--
2/15/2015	\$80.00	4.000%	--
8/15/2015	\$80.00	4.000%	--
2/15/2016	\$80.50	4.000%	--
8/15/2016	\$81.00	4.025%	--
2/15/2017	\$81.50	4.050%	--
8/15/2017	\$82.00	4.075%	--
2/15/2018	\$82.50	4.100%	--
8/15/2018	\$83.00	4.125%	--
2/15/2019	\$83.50	4.150%	--
8/15/2019	\$84.00	4.175%	--
2/15/2020	\$84.50	4.200%	--
8/15/2020	\$85.00	4.225%	--

Date	Nominal Outstanding	Interest Paid	Principal Paid
2/15/2021	\$86.00	4.250%	--
8/15/2021	\$87.00	4.300%	--
2/15/2022	\$88.00	4.350%	--
8/15/2022	\$89.00	4.400%	--
2/15/2023	\$90.00	4.450%	--
8/15/2023	\$91.00	4.500%	--
2/15/2024	\$92.00	4.550%	--
8/15/2024	\$93.00	4.600%	--
2/15/2025	\$94.00	4.650%	--
8/15/2025	\$95.00	4.700%	--
2/15/2026	\$96.00	4.750%	--
8/15/2026	\$97.00	4.800%	--
2/15/2027	\$98.50	4.850%	--
8/15/2027	\$100.00	4.925%	--
2/15/2028	\$100.00	5.000%	--
8/15/2028	\$100.00	5.000%	100

