



Towards Sound Debt Management

Presentation

Joint MFM-PFM Conference

8-11 November, 2010

Bridgetown, Barbados



CARTAC



Outline

Debt situation in the Caribbean

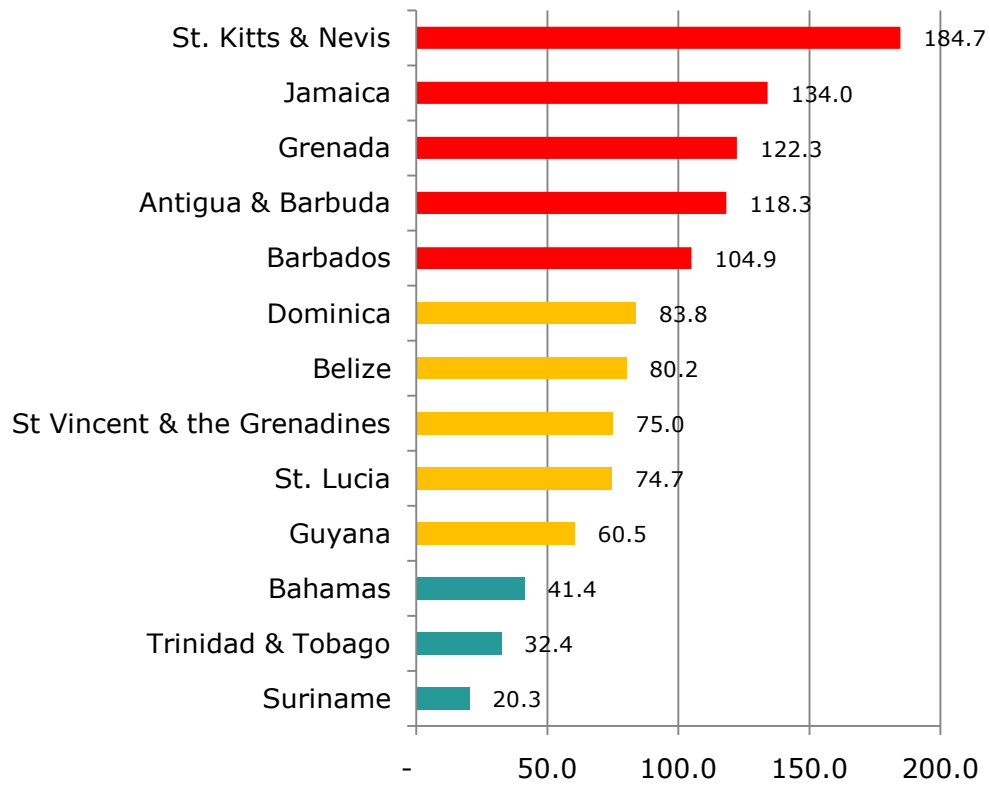
Sound debt management - components

Performance in debt management

CARTAC assistance in debt management



Current Situation – Public Debt-to-GDP(end 2009)



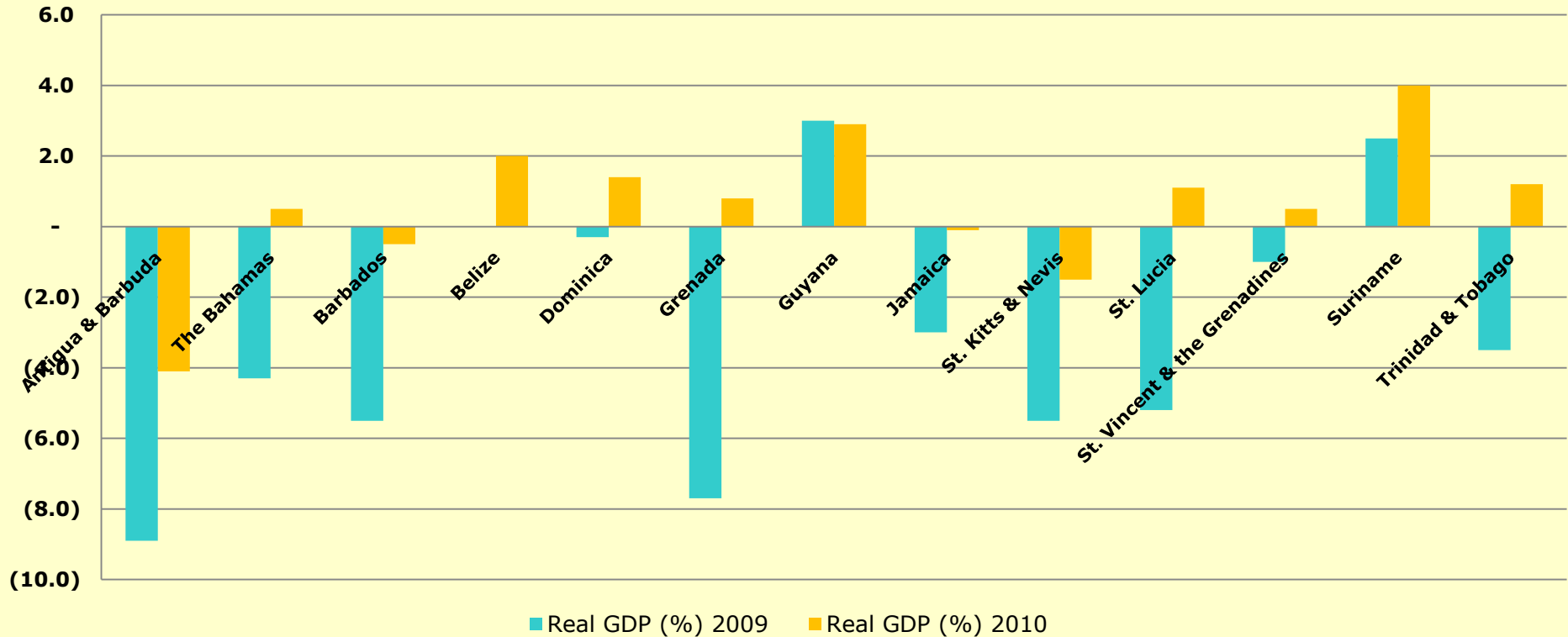
Source: IMF

Trends are worrying...

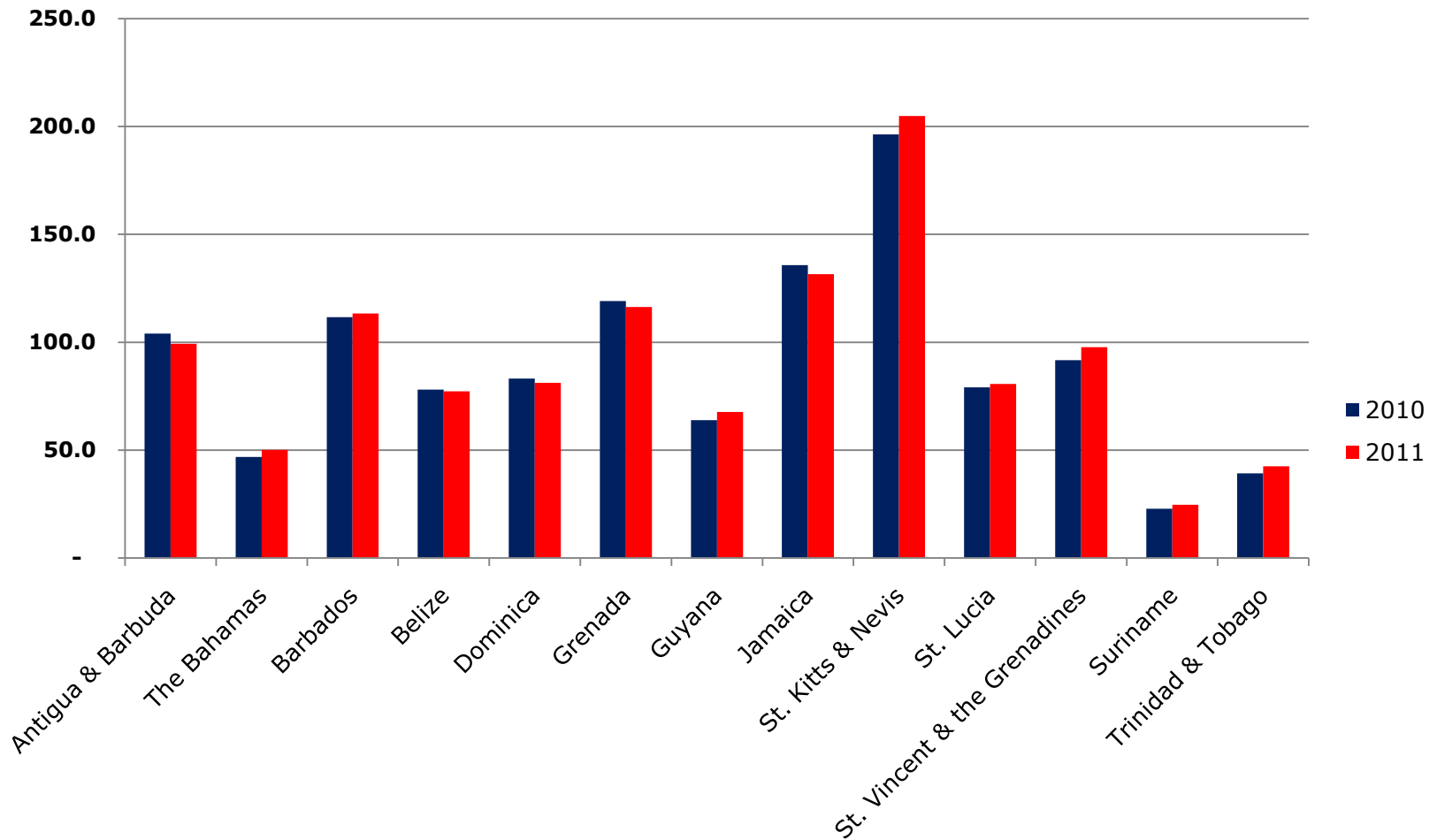
	<h3>Comprehensive Debt Restructuring</h3> <ul style="list-style-type: none"> • Between 2000-2004: Belize, Dominica, Guyana • Between 2005-2008: Grenada, Guyana • 2010: Antigua and Barbuda, Jamaica
	<h3>Credit Ratings</h3> <ul style="list-style-type: none"> • 2010: 3 countries downgraded by S& P (The Bahamas, Barbados, Jamaica) • Main concerns fiscal challenges, increase in debt burden, contingent liabilities
	<h3>Exceptional Financing</h3> <ul style="list-style-type: none"> • 2010 Increasing number of countries sought IMF assistance (Antigua and Barbuda, Grenada, Jamaica) • Many territories (Cayman, Turks and Caicos received approval to borrow)
	<h3>Deficits and Debt</h3> <ul style="list-style-type: none"> • Revenue flat or declining for 9 of 13 countries • Deficits high and debt increasing rapidly

Growth is weak for the near future

Caribbean: Real GDP (%)



...and debt-to-GDP is forecast to rise in most Caribbean countries



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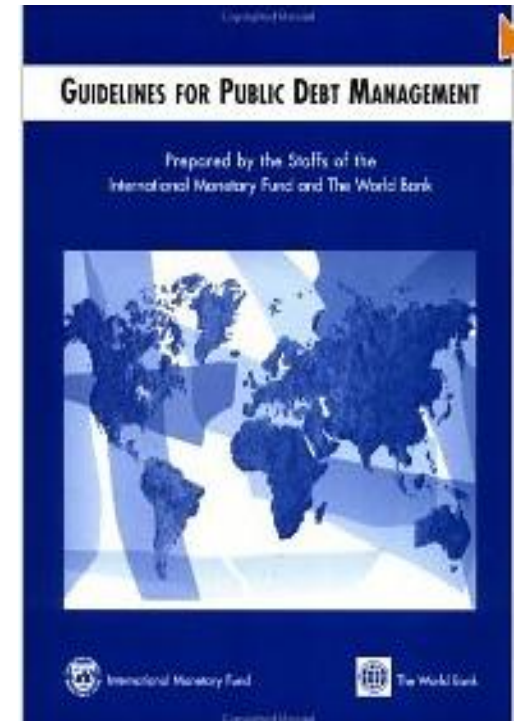
CARTAC assistance in debt management

What is public debt management?

- “Public debt management is the process of establishing and executing a strategy for managing the government’s debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other public debt management goals the government may have set, such as developing and maintaining an efficient market for government securities.”

IMF/World Bank - February 2001

(Guidelines for Public Debt Management)



Legal Framework

- Strong legal framework for debt management should:
 - Establish the authority to borrow
 - Specify purpose of borrowing
 - Set clear debt management objectives
 - Require the preparation of a debt management strategy
 - Require mandatory reporting to parliament on debt management activities
- Key indicators
 - Modern debt legislation
 - Single debt management act



Institutional Arrangements



Institutional framework requires:

- Clearly articulates mandates and roles
- Consolidation of debt management activities
- Skilled staff who are subject to code of conduct and conflict of interest guidelines

Key indicators

- Clear role for MOF, DME and CB
- Principal debt management entity
- Well defined organisational structure organised along functional lines
- Clearly articulated job descriptions
- Well trained and competent staff

Debt Management Objectives and Coordination



- Core debt management objective :
 - “Ensure that financing needs and payment obligations are met at the lowest possible cost over medium to long run, consistent with a prudent degree of risk”
- Coordination requires:
 - A common understanding of the objectives of debt management, fiscal and monetary policies
- Key indicators
 - Active debt advisory committee
 - Established cash management activities
 - Routine information exchange within principal debt entity, and between principal debt entity and central bank and fiscal/budget authorities

Debt Strategy and Risk Management

- Need to develop and implement an effective medium-term debt strategy (MTDS)
 - Provides a framework to guide new financing to ensure debt management objectives are met
- Also need a risk management framework to:
 - Identify and manage trade-off between cost and risk in the debt portfolio
 - Consider the impact of contingent liabilities
- Key indicators
 - Portfolio analysis and stress tests
 - Published medium-term debt strategy

THE WORLD BANK AND INTERNATIONAL MONETARY FUND



DEVELOPING A MEDIUM-TERM DEBT MANAGEMENT
STRATEGY (MTDS):
THE ANALYTICAL TOOL

USER GUIDE

May 2009

Borrowing Activities

- Domestic debt:
 - Ensure policies and operations are consistent with an efficient government securities market
- External debt:
 - External funding is secured on the most cost effective terms
 - Legal advisors are involved in the negotiation process from the outset
- Key indicators
 - Auction of government securities
 - Issuance calendar and borrowing plan
 - Loan evaluation
 - Documented guidelines for approving/issuing guarantees



Operational Risk Management

A technical glitch was blamed for the reappearance on a newspaper's website of a six-year-old article describing **United Airlines'** bankruptcy. The item was picked up by Google's news service and UAL's share price fell by 75% before the airline reassured investors that the story was old news—it left bankruptcy protection in 2006.

Missing out on the bonanza
Stockmarkets briefly rallied on the news of Fannie's and Freddie's rescue. However, stockbrokers in the City lost millions of pounds in potential commission when the **London Stock Exchange** suspended trading because of a computer failure.

- Good practices requires development of operational risk policies and procedures
- Key indicators
 - Maintenance of loan documentation in secure environment
 - Operational procedures manual
 - Routine payment confirmation against internal records
 - Two person authorisation processes
 - Disaster recovery procedures

Debt Recording and Reporting

- Debt Recording
 - Compilation of accurate, timely and comprehensive debt statistics
- Debt Reporting
 - Wide dissemination of debt data to inform policy and strategy development
 - Transparency and accountability
- Key indicators
 - Comprehensive debt management system
 - Prompt data entry and timely generation of outputs for analysis and reporting
 - Debt statistics bulletin/official website
 - Reporting to the World Bank Debt Reporting System



Current debt situation in the Caribbean

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Findings among selected Caribbean countries

Institutional Framework	<ul style="list-style-type: none"> • Narrow legal framework - debt management objectives, reporting requirements not specified • Very fragmented organisational framework • Low staff capacity 	<ul style="list-style-type: none"> • Modernised debt legislation in single debt management act (Suriname)
Coordination	<ul style="list-style-type: none"> • Very limited coordination with monetary and fiscal policies • Irregular information exchange 	Debt management committees (Barbados, Grenada)
Debt Management Strategy	<ul style="list-style-type: none"> • No explicit or comprehensive debt management strategy in most countries • No formal risk management strategy 	Published debt strategy (Jamaica)

Findings among selected Caribbean countries

Factor	Findings	
Borrowing Activities	<ul style="list-style-type: none"> • Government securities market inefficient • No documented loan evaluations or borrowing plan • Limited involvement of government legal advisors 	<p>Growing use of RGSM in ECCU</p> <p>Move to dematerialisation in (Barbados, Jamaica)</p>
Operational Risk Management	<ul style="list-style-type: none"> • Documented operational risk management procedures • Few, if any, compliance monitoring with existing policies and procedures 	<ul style="list-style-type: none"> • Clearly articulated or documented job descriptions for debt management (Jamaica, Guyana, Suriname) • Debt recording and reporting procedures (Guyana)
Debt Recording and Reporting	<ul style="list-style-type: none"> • Few countries validated data • Few countries disseminate comprehensive debt statistics 	<ul style="list-style-type: none"> • Comprehensive debt statistics (Jamaica) website

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Background to TA

- Economic and financial crisis has highlighted need for stronger debt management functions and institutions
- CARTAC responding to request to increase role in area of debt management
- TA plan for debt management developed in early 2010 with the focus on:
 - Unmet needs
 - Coordinated effort

TA programme

Three main components

- **Institutional reviews**
 - Organisational framework, staff capacity, business processes, manuals, data systems, information exchange)
- **Workshops**
 - Interpretation & assessment of loan agreements
 - Negotiation strategies with creditors
 - Debt portfolio analysis
- **Forum**
 - One-day forum targeting senior officials from member nations contemplated
- Some assistance in data validation
- Shared backstopping and oversight: IMF Fiscal Affairs Dept and Monetary & Capital Markets Dept
- Work with other partners, providers:
 - IMF on MTDS, WB on DSA; CIDA-funded DMAS Unit in ECCB





Jamaica's Debt Exchange Offer ("JDX")

Jamaica Observer article – 07/11/2010

BUSINESS

JDX successful beyond expectations — World Bank

BY AL EDWARDS

Sunday, November 07, 2010



THE implementation of the Jamaica Debt Exchange (JDX) as a means of reducing interest payments on the country's huge debt burden has proven successful beyond expectations said the World Bank Group's Vice-President for Latin America and the Caribbean, Pamela Cox.

Speaking with Sunday Finance in an interview last month in Washington DC at the IMF/World Bank Annual Meetings, she said: "The JDX has been successful beyond our expectations. To have a buy-in of over 99 per cent is incredible. Most countries struggle to get the required 80 per cent. The JDX has almost halved the interest rate the government is paying. However, this is not the solution to everything. The government still needs to follow the strict macroeconomic policies. Just because we have the JDX doesn't mean it is time to go have a party, that's our message.

Background

- Total debt US\$13.4 bn (135% of GDP) at end-2009
- More than half the debt owed to domestic creditors
- Total debt service costs exceed 100% of government revenues
- Interest payments exceeded 65% of government revenue
- Interest rates on many government securities over 20%
- Over 25% of government securities matured in 24 months
- Domestic debt
 - Owed mainly to merchant banks, commercial banks, insurance companies and pension funds (80%)
- External debt
 - Owed mainly to private bondholders and multilateral lenders

Programme Framework

**Fiscal
Reform**

A large green triangle with a gradient from light green at the top to dark green at the bottom. The text "Economic Programme" is centered inside it in a bold, yellow-green font.

**Economic
Programme**

**\$1.3 bn IMF Standby
Agreement
\$1.1 bn Multilateral
Funding**

**Jamaica Debt
Exchange
(JDX)**

Exchange Offer Strategy: Development



- Development of the GOJ first domestic exchange offer began November, 2008 with Citicorp as financial advisor
- Initial transaction conception was a J\$150 billion debt extension
 - Focus on debt maturing within 2 years to lower refinancing pressure on rates
- Broad market consultation carried out actively between March 2009 and January, 2010 (launch date)
- Scope of the exchange offer change due to increase in market rates
 - Shift from addressing the shortest bonds only to the entire portfolio
- Final consultation with Citi, the IMF, the IADB, and the World Bank carried out in November and December, 2009
 - Objective - assure full integration with the Government's medium-term economic program

Exchange Offer Strategy: Market Consultation

Market consultations extensive

- Group meetings (April and August, 2009)
- One-on-one meetings with leading banks, securities dealers, and pension managers
- Consultations included discussion of a local market initiative from February, 2009
- Key results of the consultations incorporated into the final proposal
- Final market pre-consultation January 10th – 13th, 2010 led to some further changes (e.g., addition of new 30 Year fixed rate bond)



The Transaction Structure

Objectives of the Transaction

Improve maturity profile

- Achieve substantial cost savings
- Seek to increase fraction of fixed rate debt in the portfolio
- Ensure banking system stability
- Obtain substantially 100% participation rate
- Include a simple choice for small investors to allow for a high level of retail participation
- Bifurcate submission process to:
 - Allow mass processing of small retail orders
 - Efficient processing of a small number of very large and complex institutional orders

Summary Term Sheet

Expiration Date:	<ul style="list-style-type: none"> January 26, 2010 (Extended to February 3rd, 2010)
Settlement Date:	<ul style="list-style-type: none"> February 16, 2010 (Extended to February 24th, 2010)
Eligible bonds:	<ul style="list-style-type: none"> About J\$701 billion local law bonds (FR/VR/USD) Marketable Bonds issued prior to December 31, 2009 and maturing after February 16, 2010 External law bonds excluded
Transaction Type:	<ul style="list-style-type: none"> Par-for-par exchange offer Accrued interest paid in cash
New Bonds:	<ul style="list-style-type: none"> 24 new benchmark bonds (and a 1-Year retail bond added) Fixed Rate bonds are non-call life, Variable Bonds fixed up front for up to 12 months
Pricing:	<ul style="list-style-type: none"> New J\$ bonds priced in the range of 12-13% USD bonds priced near 7%
Allocation Rules:	<ul style="list-style-type: none"> All exchanges will be from shorter dated bonds to longer dated bonds Fixed Rate only to Fixed Rate USD only to USD Variable Rate to Variable Rate, Fixed Rate, or CPI-indexed
Target participation:	<ul style="list-style-type: none"> Substantially 100% Bonds maturing within two years and high coupon fixed rate bonds

Results of Transaction

Results of Transaction

Participation

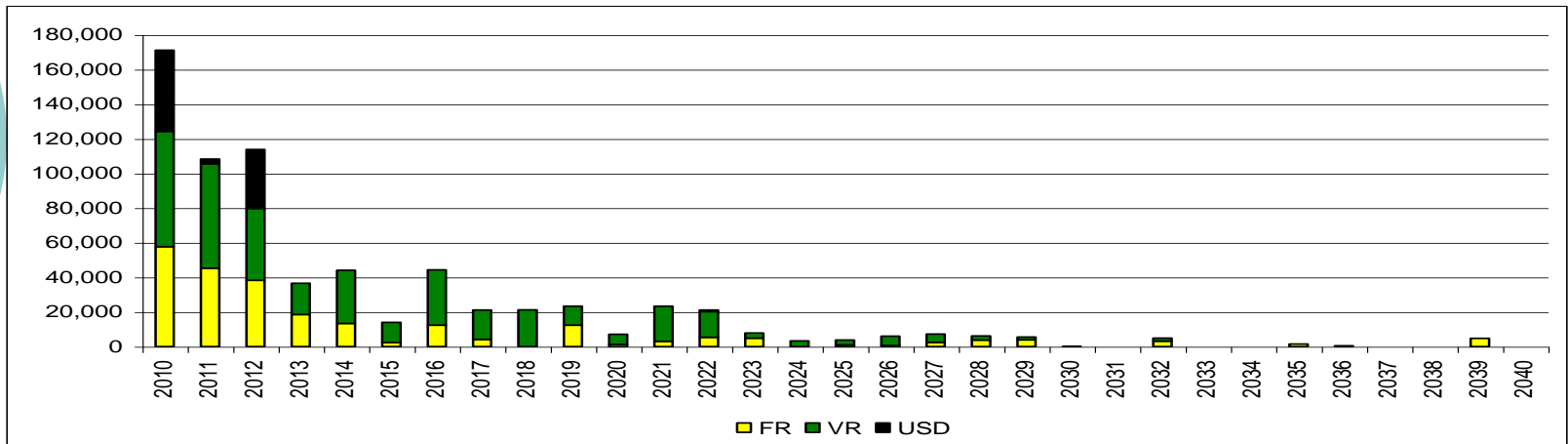
- **Over 99% participation rate**
- **Nearly 100% participation within the professional investor universe**
- **Very high participation by retail investors**

Key Portfolio Results:

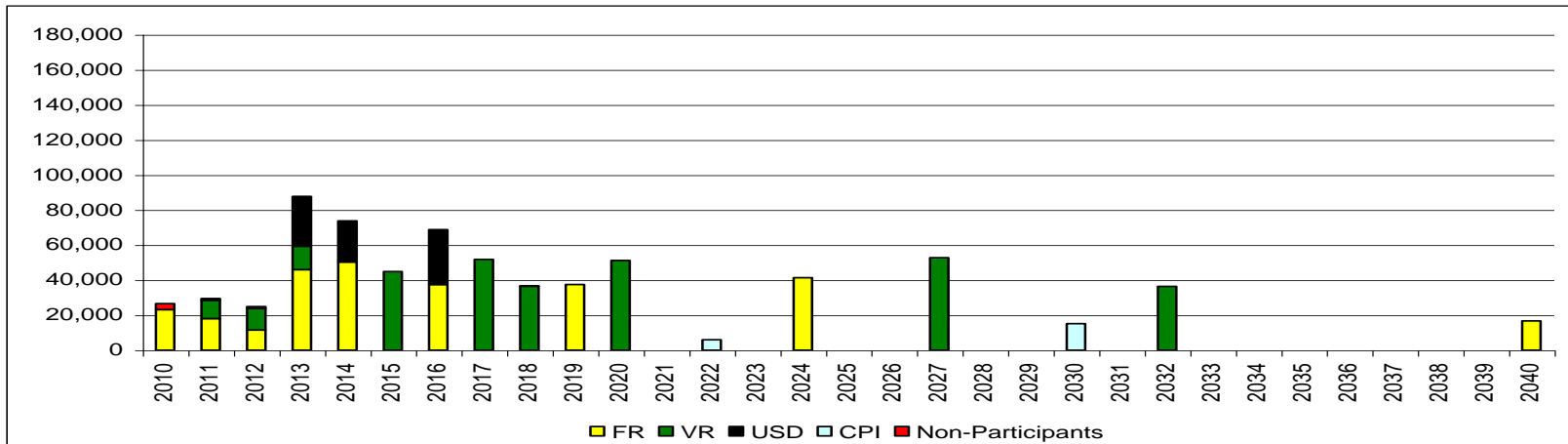
- **Annualized pre-tax cash flow cost savings of over J\$ 42 billion.**
- **Maturity profile substantially extended and smoothed. *Over J\$300 Billion reduction in principal maturities 2010 – 2012.***
- **Fixed rate fraction of debt increased by 7%**
- **350 small bonds replaced by 24 benchmark bonds**

Results of Transaction: Maturity Profile Before and After

Portfolio: Before



Portfolio: After*



* Final results on 97% of nominal, estimated allocations for 3% physical/ retail participation.

Results of Transaction: Portfolio Parameters

	Before	After	Change
Variable Rate	54%	44%	-10%
Fixed Rate	34%	41%	+7%
USD	12%	12%	Unchanged
CPI-Indexed	0%	3%	+3%

- The objective of increasing fixed rate debt and lowering variable rate debt was successfully achieved.

Success factors

- Broad national consensus
- Extensive market consultation
- Commitment to economic and structural reform
- Precondition to Exceptional Multilateral Support
- Supporting Framework
- Simplification of the debt exchange for small retail investors
- Closure of the International Capital Markets

Thank you