



CARIBBEAN ACTUARIAL ASSOCIATION



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Caribbean debt and the Jamaica Debt Exchange: A pause for thought

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Outline

Debt situation in the Caribbean

Options for debt reduction

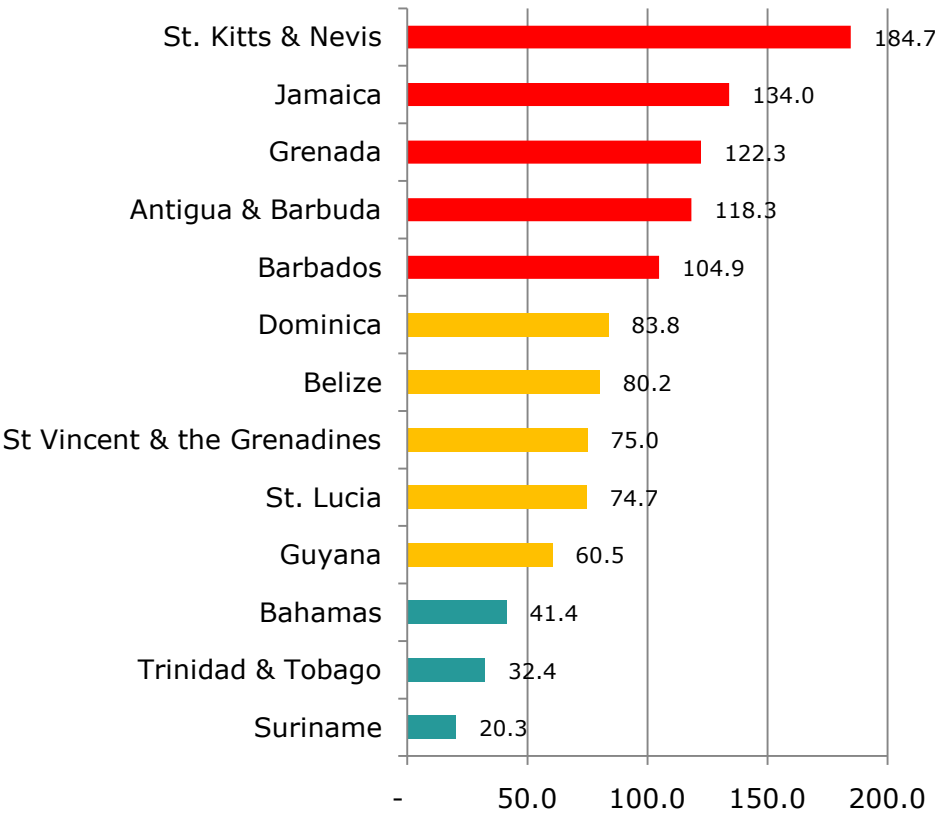
The Jamaica Debt Exchange

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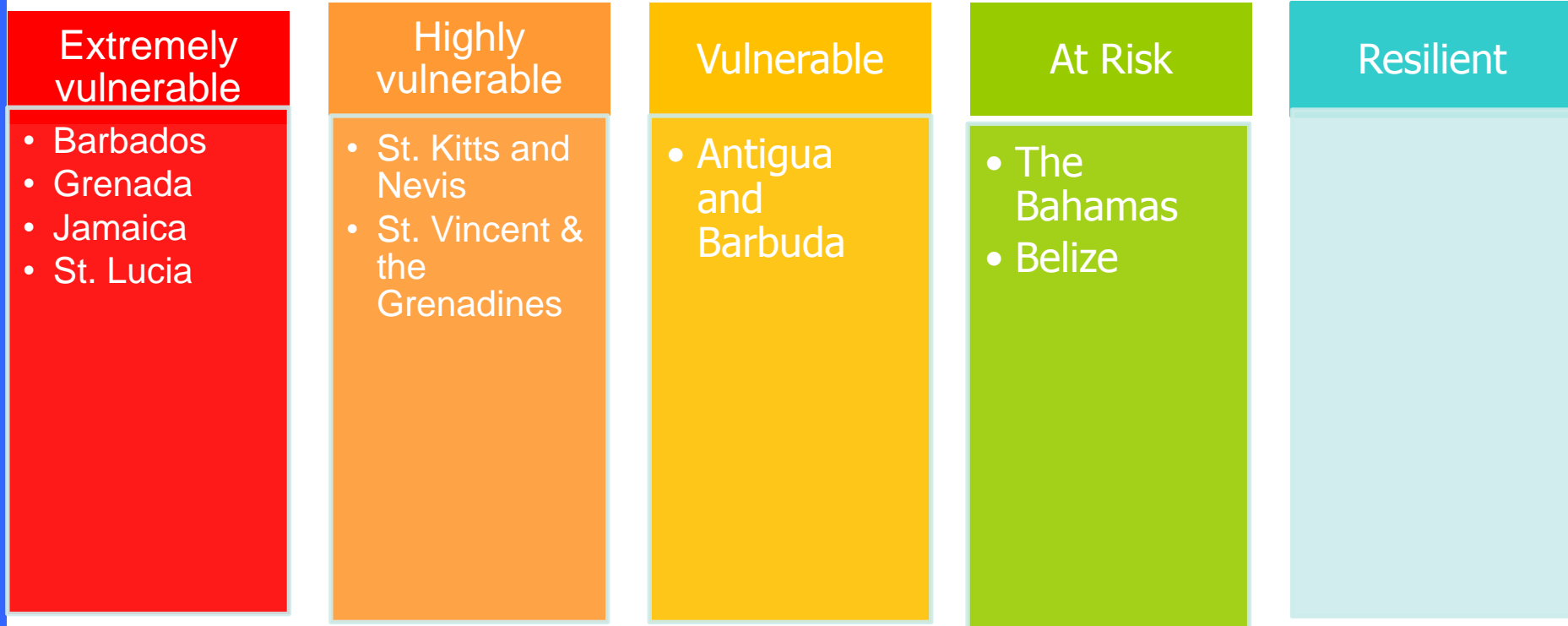
Current Situation – Public Debt-to-GDP(end 2009)



Source: IMF



Most Caribbean economies environmental vulnerable due to climate change, natural disaster, has negative impact on fiscal accounts and growth



Source: United Nations Environment Programme (UNEP) and South Pacific Applied Geoscience Commission

Trends are worrying...



Comprehensive Debt Restructuring

- Between 2000-2004: Belize, Dominica, Guyana
- Between 2005-2008: Grenada, Guyana
- 2010: Antigua and Barbuda, Jamaica



Credit Ratings

- 2010: 3 countries downgraded by S& P (The Bahamas, Barbados, Jamaica)
- Main concerns fiscal challenges, increase in debt burden, contingent liabilities



Exceptional Financing

- 2010 Increasing number of countries sought IMF assistance (Antigua and Barbuda, Grenada, Jamaica)
- Many territories (Cayman, Turks and Caicos received approval to borrow)

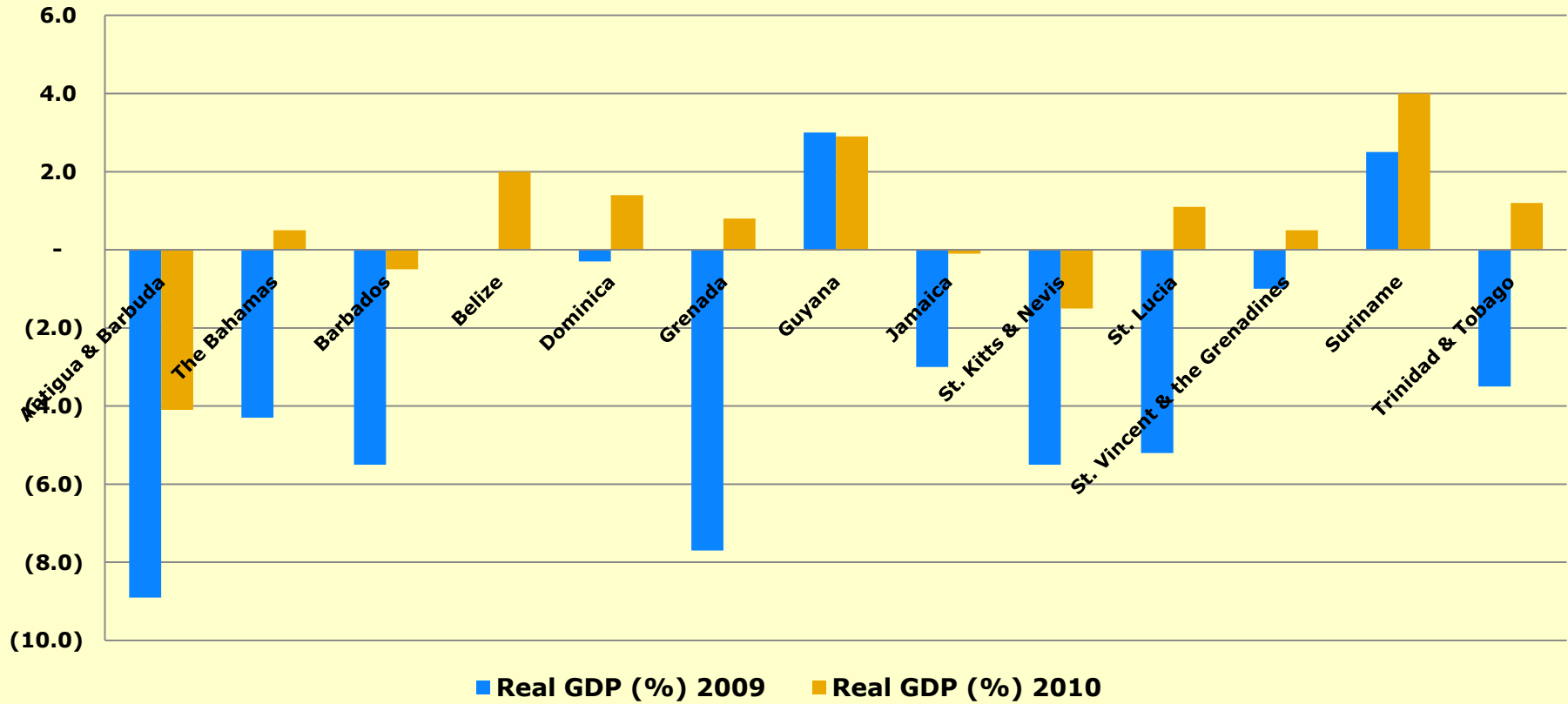


Deficits and Debt

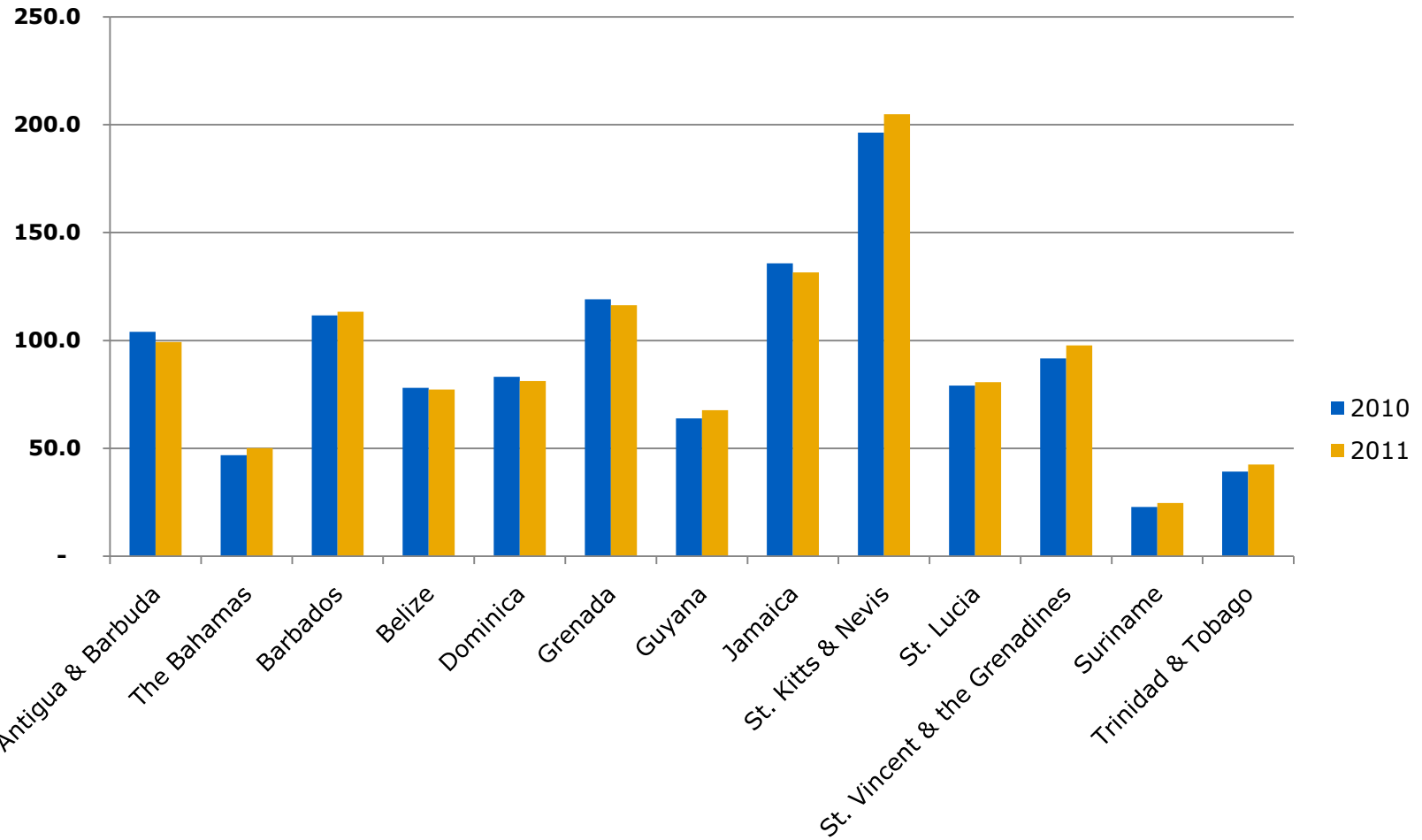
- Revenue flat or declining for 9 of 13 countries
- Deficits high and debt increasing rapidly

Growth is weak for the near future...

Caribbean: Real GDP (%)



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



Current debt situation in the Caribbean

Options for Debt Reduction

The Jamaica Debt Exchange

Options for debt reduction in the Caribbean

- Fiscal adjustment and reform
 - Cutting expenditures, strengthening tax administration
 - Enacting fiscal responsibility legislation
- Growth
 - Diversifying the economy, attracting foreign investment
 - Further expanding the tourism sector
- Improved debt management
 - Seeking more concessional financing
 - Developing and implementing a debt strategy
 - Implementing debt restructuring
- Call for a Caribbean debt initiative
 - Commonwealth Secretariat championing effort for SVEs

Current debt situation in the Caribbean

Options for Debt Reduction

The Jamaica Debt Exchange



The Jamaica Debt Exchange (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.

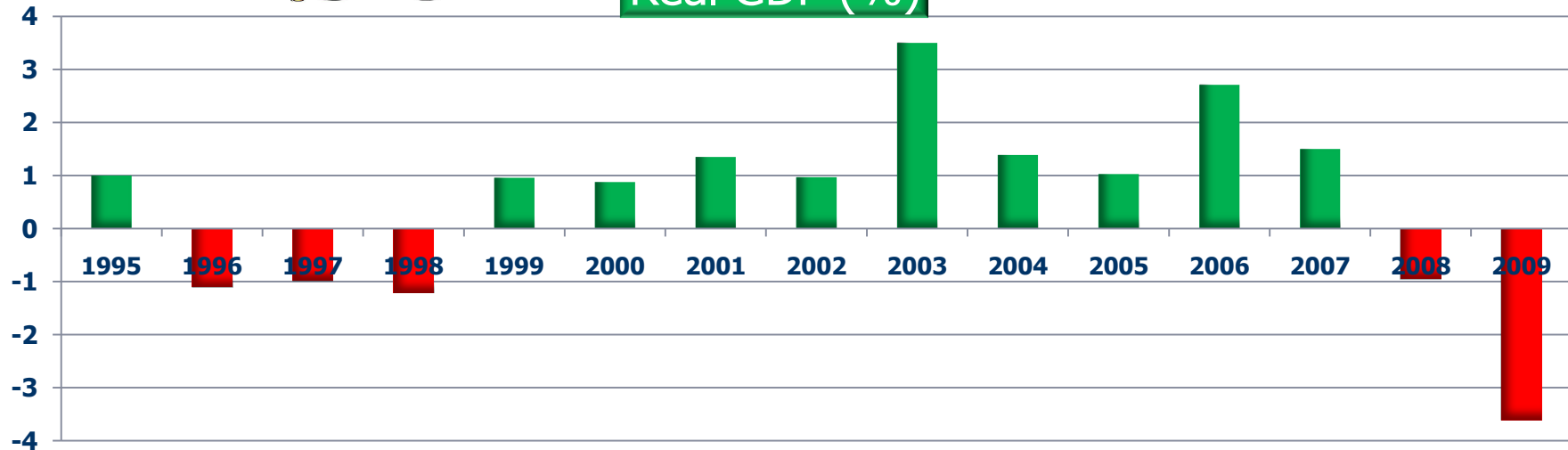
The Background



Jamaica's economic growth well below potential and economy highly sensitive to external shocks



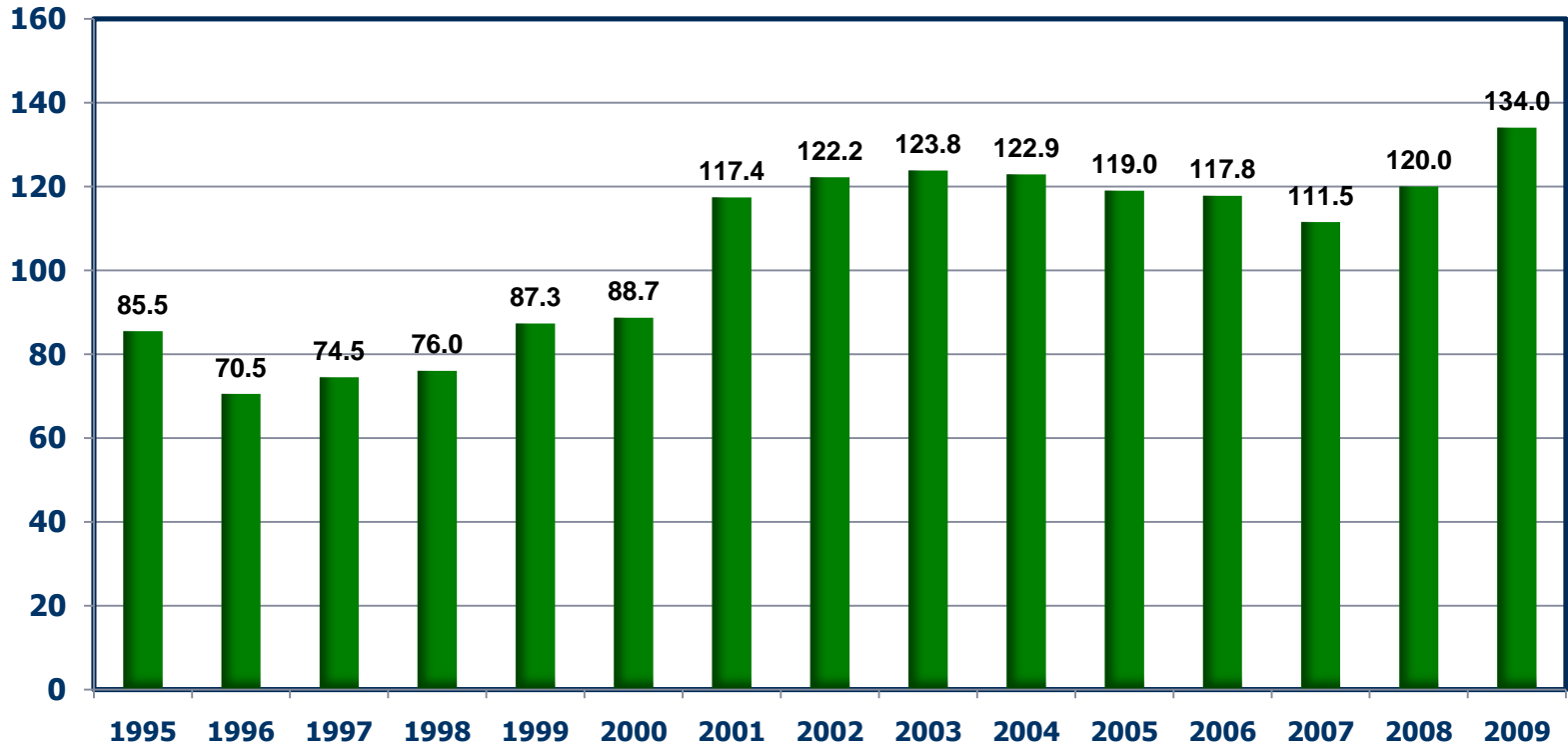
Real GDP (%)



Jamaica's debt has been unsustainable...



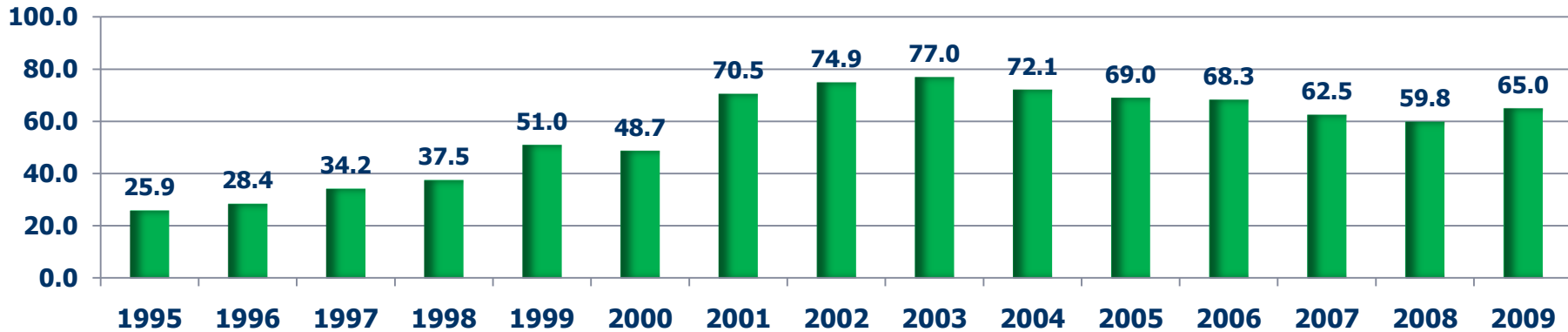
Jamaica: Public Debt/GDP (%)



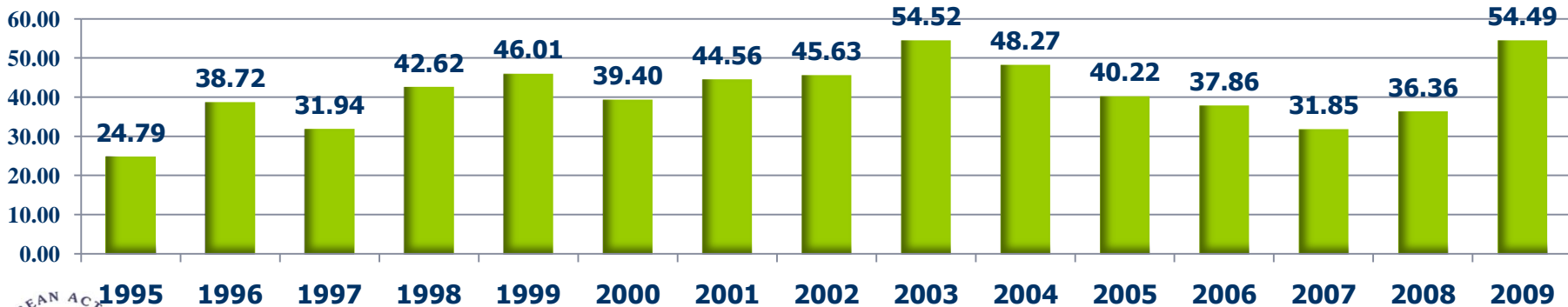
...and domestic debt has surged.



Domestic Debt/GDP



Domestic Interest Payments as % of Tax Revenue



The turning point in 2009

- Total public debt US\$13.4 billion (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

**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 financial advisor (Citicorp)
- 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 consultations with financial advisors, 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)



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The Jamaica Debt Exchange – The Transaction



Objectives of the Debt Exchange

- 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

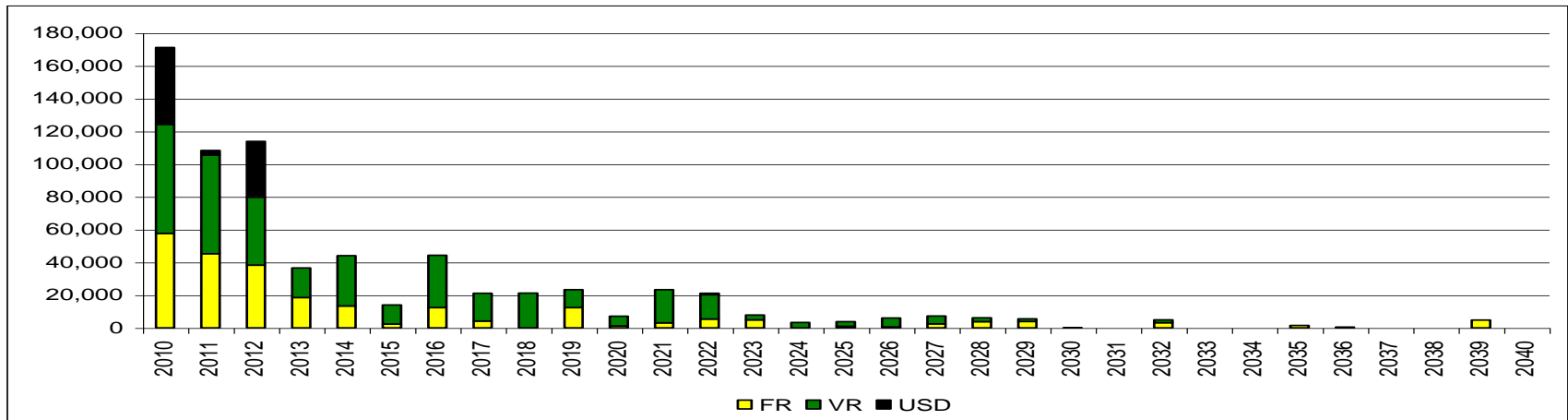
- Over 99% participation rate
- Nearly 100% participation within the institutional investor class
- Very high participation by retail investors

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 share of debt increased by 7%
- 350 small bonds replaced by 24 benchmark bonds

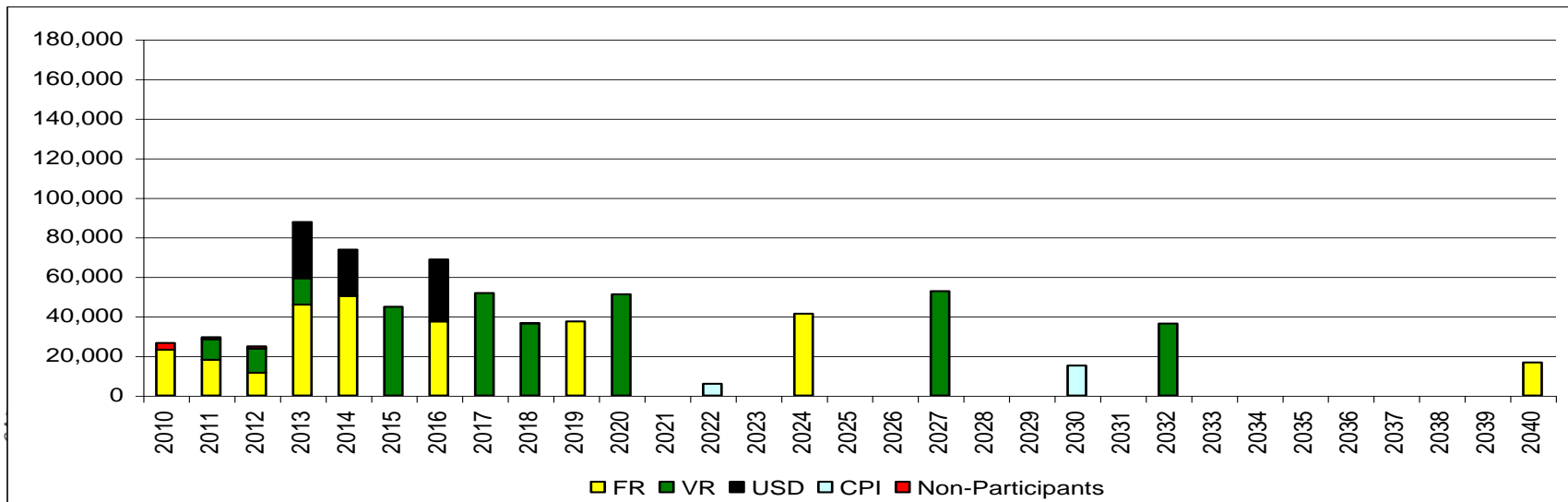
Results of Transaction: Maturity Profile Before and After

Portfolio: Before



Portfolio: After*

Source: Ministry of Finance



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

THE PSOJ SUPPORTS THE JAMAICA DEBT EXCHANGE

THE PSOJ SUPPORTS THE JAMAICA DEBT EXCHANGE

The Private Sector Organisation of Jamaica (PSOJ) supports the decision taken by the Government of Jamaica (GOJ) to execute the Jamaica Debt Exchange (JDX). This transaction is consistent with the PSOJ's own Economic Policy Framework and recommendations made to the Government.

The PSOJ believes that the fiscal deficit and the debt represent the largest short-term risks to Jamaica's macroeconomic stability. Furthermore, it believes that the size of the fiscal deficit constrains economic growth and employment by creating high rates of taxation and the crowding out of private investment.

The PSOJ believes that the JDX will result in meaningful interest cost savings that will significantly improve the fiscal deficit and overall macroeconomic stability. As a result, the JDX is likely to lower the interest rates faced by businesses and entrepreneurs and create enhanced economic activity and job

- 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

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JAMAICA OBSERVER EDITORIAL: Support for the Jamaica debt exchange



WEDNESDAY, 13 JANUARY 2010 03:09 |

THERE'S merit in the Jamaica Debt Exchange (JDX) programme being launched tomorrow by the Government of Jamaica. The programme, as we understand it, will save the country \$40 billion in interest expenditure on domestic debt over the next financial year, and the fact that it will not include external bonds means that it could have limited impact on Jamaica's international credit rating.



The JDX, we are told, is designed to bring into a sustainable range, the amount of government resources devoted to servicing local debt, and reduce the debt in a manner that, the Administration is convinced, will be fair to all holders of government paper.

Issues Arising

- Positives

- Lower debt service costs – less risk of default
- Lower interest rates – spill-over effects on growth
- Less draconian tax measures/fiscal adjustment
- Implementation of fiscal responsibility framework

- Negatives

- Lower bank profitability - higher bank charges
- Reduced income for pensioners
- Lower investment yields

Aim to reduce public debt/GDP to 100% or less by 2016

The momentum of the JDX must be followed by “an aggressive debt reduction strategy to reduce the public debt-to-GDP to sustainable levels over the medium to long term...”

And then there were none...

Thank you