Jamaica’s New Economic Programme and Exchange Offer

February 12, 2013

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Speakers

**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
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
IMF Programme

- 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
Programme Framework

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
Fiscal 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
**Structural 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
Frontloaded Legislative Agenda & Structural Benchmarks

• **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
Economic Programme Compliance Enhancement

- 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
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")
Debt Exchange Rationale and Design

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

<table>
<thead>
<tr>
<th>Current Margin</th>
<th>Old Bond</th>
<th>New Bond</th>
<th>New Maturity Date</th>
<th>New Margin</th>
<th>Step-up Date</th>
<th>Step-up Margin</th>
<th>Eligible for FRAN Option?</th>
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<tbody>
<tr>
<td>1.00%</td>
<td>VR 2013</td>
<td>VR 2018</td>
<td>07/11/18</td>
<td>0.25%</td>
<td>--</td>
<td>--</td>
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<tr>
<td>1.00%</td>
<td>VR 2013A</td>
<td>VR 2018</td>
<td>07/11/18</td>
<td>0.25%</td>
<td>--</td>
<td>--</td>
<td>Yes</td>
</tr>
<tr>
<td>1.375%</td>
<td>VR 2013B</td>
<td>VR 2018</td>
<td>07/11/18</td>
<td>0.25%</td>
<td>--</td>
<td>--</td>
<td>Yes</td>
</tr>
<tr>
<td>1.375%</td>
<td>VR 2014</td>
<td>VR 2019</td>
<td>09/11/19</td>
<td>0.25%</td>
<td>--</td>
<td>--</td>
<td>Yes</td>
</tr>
<tr>
<td>1.250%</td>
<td>VR 2015</td>
<td>VR 2020</td>
<td>10/07/20</td>
<td>0.25%</td>
<td>--</td>
<td>--</td>
<td>Yes</td>
</tr>
<tr>
<td>1.375%</td>
<td>VR 2017</td>
<td>VR 2020</td>
<td>10/07/20</td>
<td>0.25%</td>
<td>--</td>
<td>--</td>
<td>Yes</td>
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<tr>
<td>1.375%</td>
<td>VR 2018</td>
<td>VR 2023</td>
<td>01/13/23</td>
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<td>3/12/24</td>
<td>1.125%</td>
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<tr>
<td>1.500%</td>
<td>VR 2020</td>
<td>VR 2025</td>
<td>03/12/25</td>
<td>0.375%</td>
<td>3/12/24</td>
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<td>Yes</td>
</tr>
<tr>
<td>1.375%</td>
<td>VR 2020A</td>
<td>VR 2025</td>
<td>03/12/25</td>
<td>0.375%</td>
<td>3/12/24</td>
<td>1.250%</td>
<td>Yes</td>
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<tr>
<td>1.375%</td>
<td>VR 2022</td>
<td>VR 2025</td>
<td>03/12/25</td>
<td>0.375%</td>
<td>3/12/24</td>
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<td>Yes</td>
</tr>
<tr>
<td>1.500%</td>
<td>VR 2027</td>
<td>VR 2035</td>
<td>06/13/35</td>
<td>0.50%</td>
<td>3/13/24</td>
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<tr>
<td>1.500%</td>
<td>VR 2032</td>
<td>VR 2035</td>
<td>06/13/35</td>
<td>0.50%</td>
<td>3/13/24</td>
<td>1.250%</td>
<td>Yes</td>
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### J$ Local Fixed Rate Old Notes

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

### USD Local Old Notes

<table>
<thead>
<tr>
<th>Current Coupon</th>
<th>Old Bond</th>
<th>New Bond</th>
<th>New Maturity Date</th>
<th>New Bond Coupon</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.750%</td>
<td>USD 2013</td>
<td>USD 2020A</td>
<td>03/11/20</td>
<td>5.25%</td>
</tr>
<tr>
<td>7.250%</td>
<td>USD 2016</td>
<td>USD 2020B</td>
<td>05/11/20</td>
<td>5.25%</td>
</tr>
</tbody>
</table>

### CPI Old Notes

<table>
<thead>
<tr>
<th>Current Coupon</th>
<th>Old Bond</th>
<th>New Bond</th>
<th>New Maturity Date</th>
<th>New Bond Coupon</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.0% step to 4%</td>
<td>CPI 2022</td>
<td>CPI 2025</td>
<td>02/24/25</td>
<td>2.0% step to 3.0%</td>
</tr>
<tr>
<td>3.5% step to 4.25%</td>
<td>CPI 2030</td>
<td>CPI 2033</td>
<td>02/22/33</td>
<td>2.5% step to 3.25%</td>
</tr>
</tbody>
</table>

**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$**
CPI Notes

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

- **New CPI 2040**

  Old VR, Old FR and Old US$

  New CPI 2040
  **Coupon Schedule**
  1.00% through 2020
  2.00% 2020 - 2030
  3.00% 2030 and thereafter

* 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

```
$100 Old VR
$100 Old FR
```

```
$80 New 10.00% 2028 FRAN accretes to $100 over 15 years
```

* 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

Launch Date
February 12, 2013

Expiration Date
February 21, 2013

Settlement Date
February 22, 2013

Submissions:
- If hold through custodian, instruct custodian to participate
- If you are your own custodian (direct participant in CSD):
  #1. Obtain confidential code from Bondcom to access website
  #2. Submit instruction through Bondcom Website

- Cancellation of Old Bonds
- Credit for New Bonds
Impact of Transaction

Pre-Exchange Maturity Profile (in J$)

Post-Exchange Maturity Profile (in J$)

Substantially lower financing risk in window of IMF Programme
Why NDX?

- We must do this for debt sustainability
- We must do this as prior action with the IMF
## FRAN Notes Accretion Schedule

<table>
<thead>
<tr>
<th>Date</th>
<th>Nominal Outstanding</th>
<th>Interest Paid</th>
<th>Principal Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuance</td>
<td>$80.00</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>8/15/2013</td>
<td>$80.00</td>
<td>4.000%</td>
<td>--</td>
</tr>
<tr>
<td>2/15/2014</td>
<td>$80.00</td>
<td>4.000%</td>
<td>--</td>
</tr>
<tr>
<td>8/15/2014</td>
<td>$80.00</td>
<td>4.000%</td>
<td>--</td>
</tr>
<tr>
<td>2/15/2015</td>
<td>$80.00</td>
<td>4.000%</td>
<td>--</td>
</tr>
<tr>
<td>8/15/2015</td>
<td>$80.00</td>
<td>4.000%</td>
<td>--</td>
</tr>
<tr>
<td>2/15/2016</td>
<td>$80.50</td>
<td>4.000%</td>
<td>--</td>
</tr>
<tr>
<td>8/15/2016</td>
<td>$81.00</td>
<td>4.025%</td>
<td>--</td>
</tr>
<tr>
<td>2/15/2017</td>
<td>$81.50</td>
<td>4.050%</td>
<td>--</td>
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<tr>
<td>8/15/2017</td>
<td>$82.00</td>
<td>4.075%</td>
<td>--</td>
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<tr>
<td>2/15/2018</td>
<td>$82.50</td>
<td>4.100%</td>
<td>--</td>
</tr>
<tr>
<td>8/15/2018</td>
<td>$83.00</td>
<td>4.125%</td>
<td>--</td>
</tr>
<tr>
<td>2/15/2019</td>
<td>$83.50</td>
<td>4.150%</td>
<td>--</td>
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<tr>
<td>8/15/2019</td>
<td>$84.00</td>
<td>4.175%</td>
<td>--</td>
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<tr>
<td>2/15/2020</td>
<td>$84.50</td>
<td>4.200%</td>
<td>--</td>
</tr>
<tr>
<td>8/15/2020</td>
<td>$85.00</td>
<td>4.225%</td>
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<table>
<thead>
<tr>
<th>Date</th>
<th>Nominal Outstanding</th>
<th>Interest Paid</th>
<th>Principal Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>2/15/2021</td>
<td>$86.00</td>
<td>4.250%</td>
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<tr>
<td>8/15/2021</td>
<td>$87.00</td>
<td>4.300%</td>
<td>--</td>
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<tr>
<td>2/15/2022</td>
<td>$88.00</td>
<td>4.350%</td>
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<tr>
<td>8/15/2022</td>
<td>$89.00</td>
<td>4.400%</td>
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<td>2/15/2023</td>
<td>$90.00</td>
<td>4.450%</td>
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<tr>
<td>8/15/2023</td>
<td>$91.00</td>
<td>4.500%</td>
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<td>2/15/2024</td>
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<td>8/15/2024</td>
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<td>2/15/2025</td>
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<td>8/15/2025</td>
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<tr>
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<td>$100.00</td>
<td>5.000%</td>
<td>--</td>
</tr>
<tr>
<td>8/15/2028</td>
<td>$100.00</td>
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<td><strong>100</strong></td>
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