Government of Jamaica

MEDIUM-TERM DEBT MANAGEMENT STRATEGY

For the period 2012/2013 – 2014/2015

AND

ANNUAL BORROWING PLAN

For Fiscal Year 2012/2013

Ministry Paper No.

May 24, 2012

Prepared by: The Ministry of Finance and Planning

TABLE OF CONTENTS

I. FOREWORD

II. REVIEW OF THE PUBLIC DEBT PORTFOLIO FY 2011/12

III. RISK ANALYSIS

IV. REVIEW OF THE DEBT MANAGEMENT STRATEGY 2011/2012

V. ASSESSMENT OF THE MACROECONOMIC ENVIRONMENT

VI. FY 2012/13 - FY 2014/15 MEDIUM-TERM DEBT MANAGEMENT STRATEGY

VII. SCENARIOS

VIII. IMPLEMENTATION METHODOLOGY

IX. LIABILITY MANAGEMENT EXERCISE

X. ANNUAL BORROWING PLAN

XI. ACRONYMS

XII. GLOSSARY

XIII. ACKNOWLEDGEMENT

XIV. APPENDIX

Ministry Paper No.____

I. FOREWORD

This publication represents the second Medium-term Debt Management Strategy (MTDS), utilizing the framework developed by the International Monetary Fund and the World Bank. The MTDS embodies the Government's desire and commitment to proactively manage the public debt within an environment of increased accountability and transparency. 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.

This MTDS provides the basis under which the Annual Borrowing Plan will be executed. Guided by the MTDS, the Government continues to pursue a strategic approach to borrowing that is designed to return the public debt to sustainable levels by ensuring that the overall borrowing requirements are met at minimum cost and are consistent with a prudent degree of risk.

Wesley Hughes, CD, JP
Financial Secretary

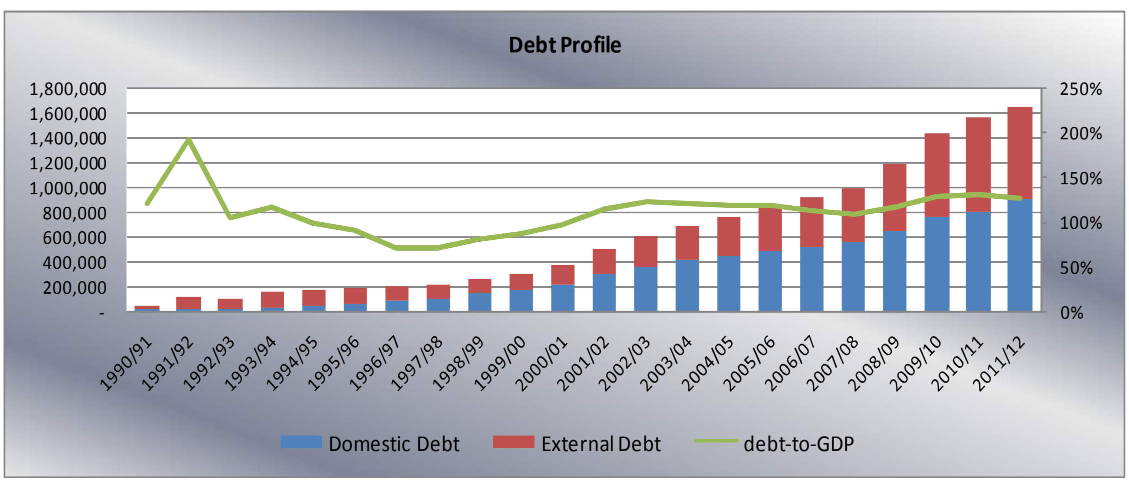
II. REVIEW OF THE PUBLIC DEBT PORTFOLIO FY 2011/12

1. The objectives of the *Debt Management Strategy* were to ensure that the funding needs of the Government were met at minimum cost in the medium and the long-term, while keeping risks in the debt portfolio at acceptable levels and promoting the development of the domestic debt market.

2. During FY 2011/12, the Government made moderate achievements with respect to the objectives outlined in the Medium-term Debt Management Strategy (MTDS). The strategy followed the previous debt management practices of refinancing all maturing external bonds with new debt from external commercial and multilateral sources, while the level of new domestic borrowing was based on financing the fiscal deficit. Inherent in the strategy were foreign exchange, refinancing and demand side risks.

3. The following were achieved:
   - A modest lengthening of external debt maturities, thereby reducing refinancing risk;
   - An increase in the US dollar share of the external debt currency composition, limiting the exposure to other non-US dollar currencies; and
   - Reduced new issuances of short term debt in the domestic market, thereby reducing refinancing risk.

Figure 1



4. Jamaica emerged out of the decade of the 1980s with a heavy external debt burden. Consequently, debt management focused on the management of the external debt portfolio. The domestic debt has evolved largely as a result of a decline in external borrowing. However, foreign exchange shortage, domestic currency depreciation and other macroeconomic conditions created debt servicing difficulties and pressure on the fiscal resources. After decreasing sharply during the early 1990's, Jamaica's debt-to-GDP ratio increased considerably between FY 1996/97 and FY 2002/03, when the ratio

increased by 52.9% moving from 71.3% at the end of FY 1996/97 to 124.3% at the end of FY 2002/03.

5. During this period, the stock of domestic debt increased more than tenfold moving from $11,868.6 million at end-March 1991 to $139,203.7 million at end-March 1999. Contingent liabilities played a significant part in the growth of the domestic debt, particularly the assumption of debt related to the financial sector crisis of the late 1990s, which accounted for 40% of GDP. The debt-to-GDP decreased from 124.3% at end FY 2002/03 to 109.7% at end FY 2007/08 but rose to 129.7% by the end of FY 2009/10. This increase was related to the onset of the global financial meltdown in 2008.

6. At the end of FY 2011/12 the stock of public debt amounted to $1,662.3 billion or 128.0% of GDP, of which domestic debt accounted for $912,642.3 million or 70.3% of GDP while external debt stood at US$8,586.8 million (J$749,631.1 million) or 57.7% of GDP. This debt-to-GDP ratio decreased[1] relative to the 131.6% recorded in FY 2010/11. The stock of debt increased by 5.9% at the end of FY 2011/12 relative to FY 2010/11. This growth rate was slower than the 9.5% growth during the 2011/12 financial year. In addition, at end-March 2012 outstanding domestic guarantees amounted to $26,559.4 million or 2.9% of GDP, compared to $26,413.7 million or 2.2% of GDP at end-March 2011.

7. The increase in the nominal debt stock was due mainly to the following:
   - Financing the fiscal deficit which included:
     - Assuming debts related to Air Jamaica, which accounted for 18.5% of the increase;
     - Issuing securities to Bank of Jamaica in respect of capitalized interest on former FINSAC bonds, which represented 2.0% of the increase; and
   - Depreciation of the Jamaica dollar vis-à-vis the United States dollar and other currencies.

Debt Issuance

8. The borrowing requirement for the FY 2011/12 was approximately $140,778.2 million, however debt contracted during the period amounted to $184,595.7 million. Of the amount contracted $153,974.6 million was disbursed.

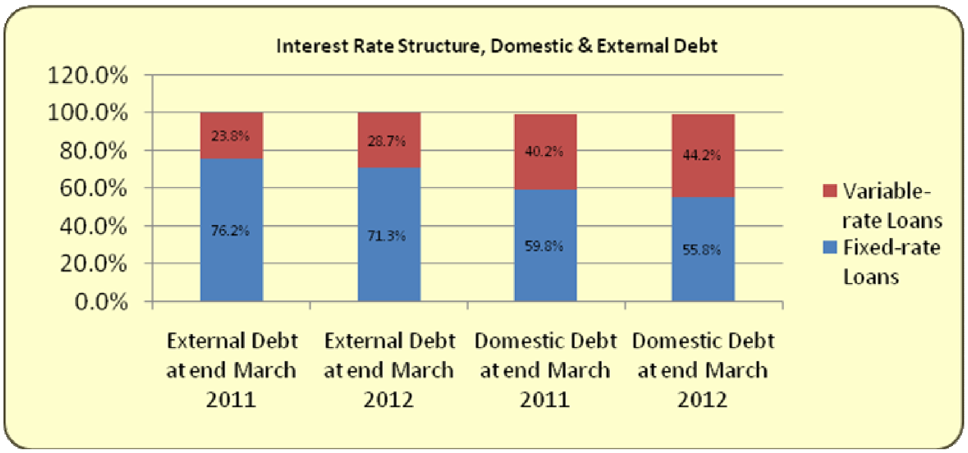
9. The strategy envisaged contracting at least 93.5% of the domestic debt on a fixed interest rate basis, and implicitly assumed that the majority of new external debt would also continue to be on a fixed rate basis. This objective was not achieved, as the proportion of variable rate instruments issued in the domestic market was 83.5%, reflecting investors' preference and the macroeconomic environment.

[1] Debt-to-GDP for FY 2010/11 was revised during FY 2011/12 from 128.3% up to 131.6% consequent on a downward revision of GDP

10. The proportion of fixed-rate instruments in the domestic debt portfolio declined to 55.7% at end-March 2012, compared to 59.8% at end-March 2011, whereas variable-rate instruments increased to 44.2% at end-March 2012, compared to 40.2% at end-March 2011. Non-interest bearing debt accounted for the remaining 0.1%.

11. The proportion of fixed-rate instruments in the external debt portfolio decreased to 71.3% at the end of March 2012, while variable-rate instruments accounted for 28.7% of the stock. At end-March 2011 the proportion of fixed- and variable-rate instruments in the external debt portfolio were 76.2% and 23.8%, respectively (See Figure 18).

Figure 2



INTEREST RATE STRUCTURE OF TOTAL DEBT

Figure 3

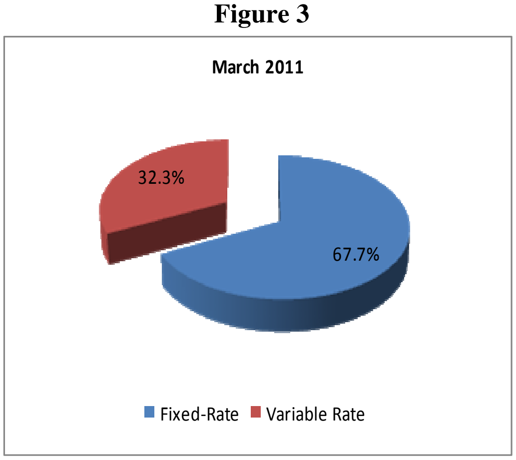
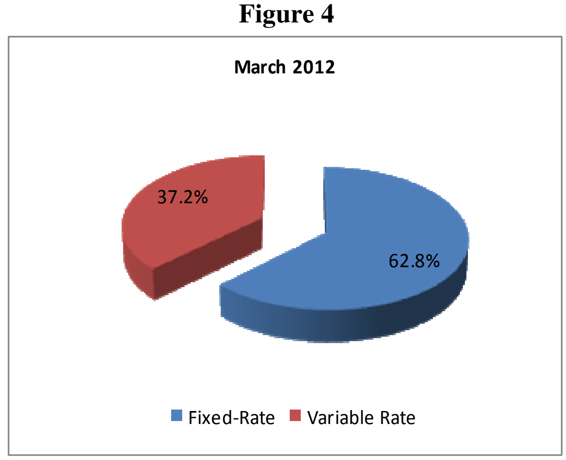


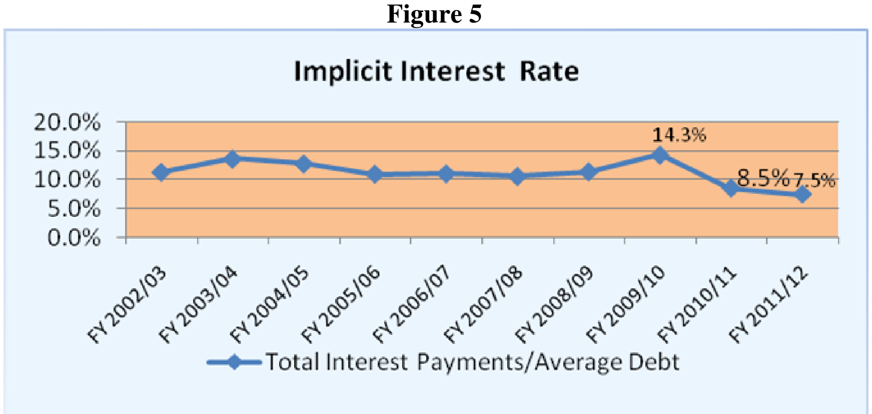
Figure 4



12. During FY 2011/12, the implicit interest rate of 7.5% improved over the corresponding period in FY 2010/11 by 1.0%. The improvement was occasioned by the reduction in

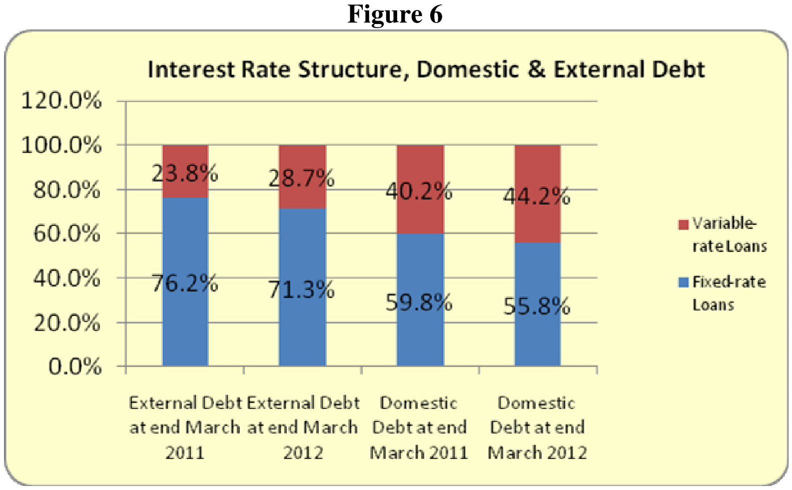
international and domestic reference rates, which are used to re-price variable rate instruments. Notwithstanding the cost savings during the review period, the Government is mindful of the interest rate risks associated with variable rate instruments. However, the strategy over the medium-term is to lower the proportion of variable rate instruments in the portfolio to have an appropriate mix of variable and fixed rate instruments to balance the cost/risk trade-off.

Figure 5



13. The Government was successful in issuing longer-dated securities, as 70.6% of new issues in the domestic market had maturities over 5 years during FY 2011/12, compared to 30.1% for the last fiscal year. Additionally, 29.4% of new issues had maturities within 5 years when compared to 69.9% at the end of FY 2010/11. This is a mitigating strategy in reducing roll-over risk in the medium-term.

Figure 6



Stock Composition

14. At end-March 2012, Variable Rate Benchmark Bonds amounted to $399,753.6 million, accounting for the largest share of the domestic debt portfolio at 43.8%. Fixed Rate

Benchmark Bonds of $359,238.2 million comprised 36.5% of the portfolio while Foreign-currency-Denominated Bonds amounted to $145,198.0 million or 15.9% of the portfolio. The remaining portion of the portfolio of $8,452.5 million (1%) is comprised mainly of Treasury Bills and Commercial Bank loans.

Structure of Domestic Debt

Figure 7

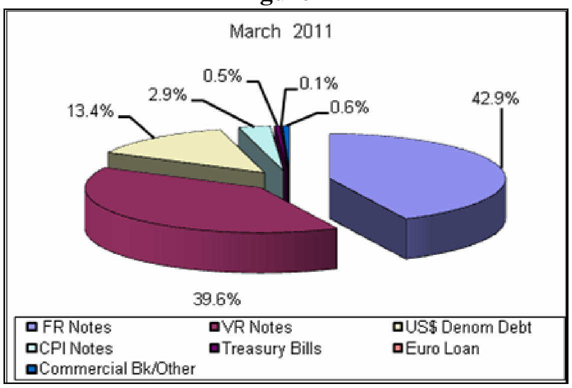
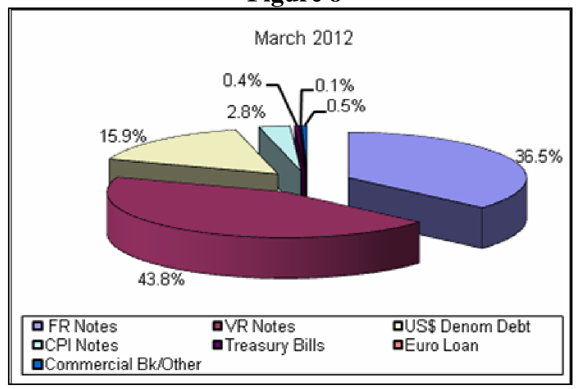


Figure 8



15. At end-March 2012, global bonds amounting to US$4,023 million accounted for the largest single share of the external debt portfolio at 46.9%. This represented a decline of US$177.3 million (4.2%) relative to end-March 2011.

16. Loans from bilateral and multilateral sources accounted for US$ 4,063.9 million or 47.3% of the portfolio. Official bilateral credits accounted for US$763.0 million or 8.9%, showing a 24.0% decline over the comparative period, due mainly to refinancing of the Euro 204 million with the issuance of a US dollar bond obtained from the International Capital Market (ICM), which resulted in a rebalancing of the creditor category in the portfolio.

External Debt by Creditor Category

Figure 9

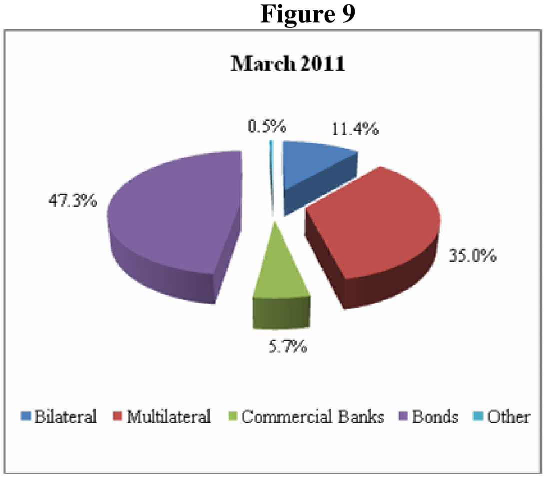
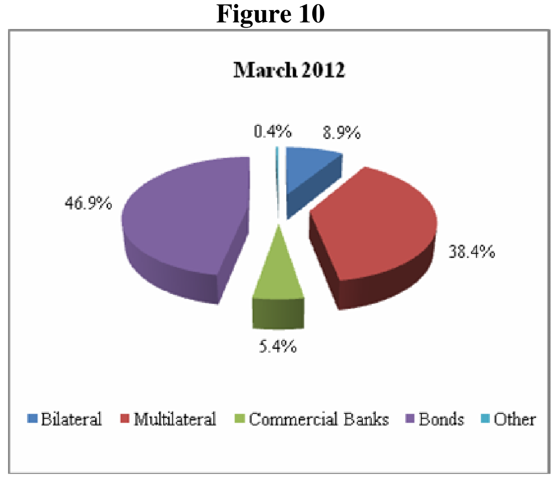


Figure 10



17. At end-March 2012, the proportion of domestic debt falling due in 1 year or less increased to 12.0%, compared to 5.8% at end-March 2011. The increase was due mainly

to the shift in the maturity timeline of previously issued debt, as the average maturity of newly issued domestic debt was 8.1 years (See figure 17). Instruments with remaining maturities of more than 1-year and up to 5 years (>1-5 years) decreased from 51.1% to 43.8%, while instruments with remaining maturity of more than 5 years and up to 10 years (>5 -10 years) decreased from 20.3% to 19.2%. Notwithstanding the decline in the proportion of debt maturing along those segments of the yield curve, debt maturing over 10-years increased from 22.8% at end-March 2011 to 25.0% at end-March 2012. The increase in the remaining maturity of longer tenor instruments, though moderate, is in keeping with the intended strategy of extending the maturity profile of the debt.

Remaining Maturity Profile of Domestic Debt

Figure 11

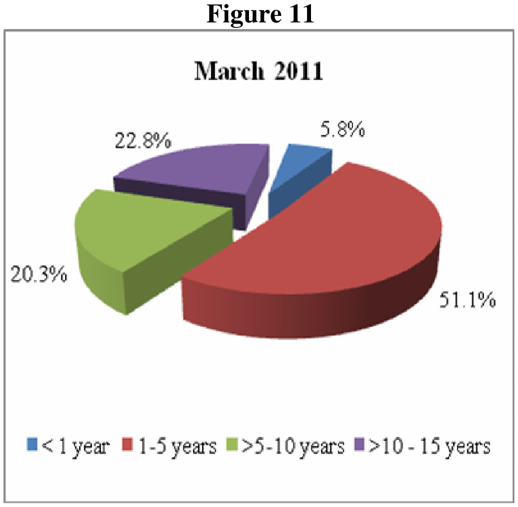
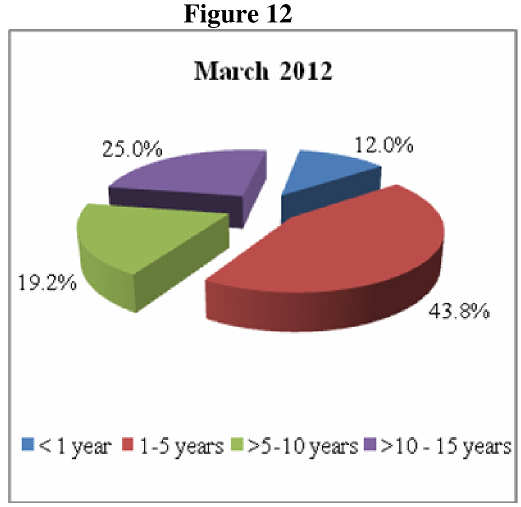


Figure 12



18. The Government made moderate strides in extending the maturity profile of the external debt during FY 2011/12, as the stock of external debt with remaining maturities of more than 5 years and up to 10 years (>5-10 years) increased to 35.2% from 32.8% at end-March 2011. Additionally, 47.9% had maturities of more than 10-years (>10 years), compared to 45.6% at end-March 2011. The stock of external debt maturing in 1-year or less (≤1 year), as a proportion of the total external debt stock, declined marginally to 6.6% at end-March 2012, relative to 7.2% at end-March 2011. The stock of debt with remaining maturities of more than 1-year and up to 5-years (>1 -5 years) declined from 14.4% to 10.4%, thereby increasing the refinancing risk in the portfolio.

Remaining Maturity Profile of Total Debt

Figure 13

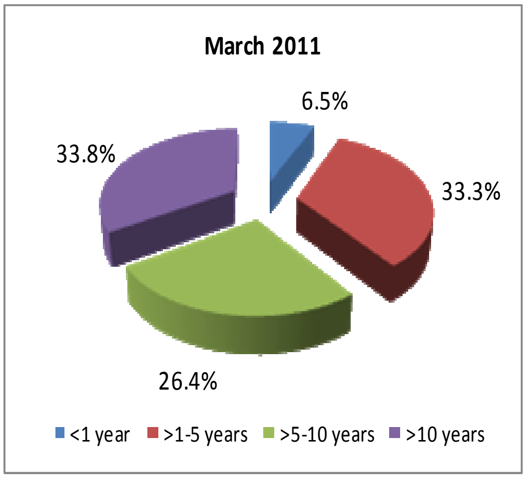
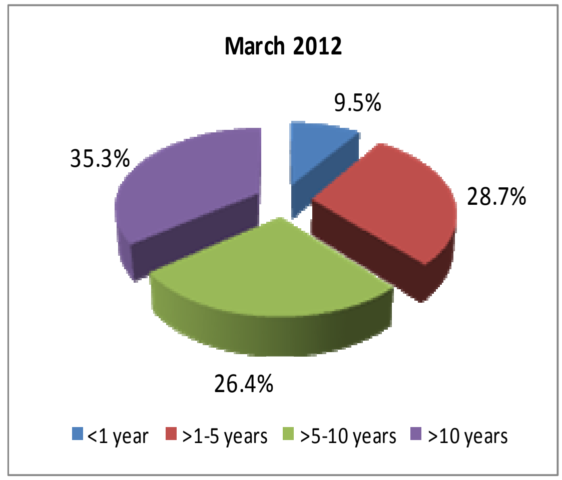


Figure 14



Remaining Maturity Profile of External Debt

Figure 15

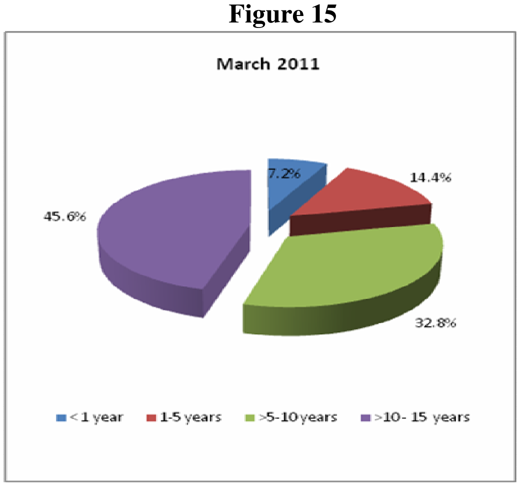


Figure 16

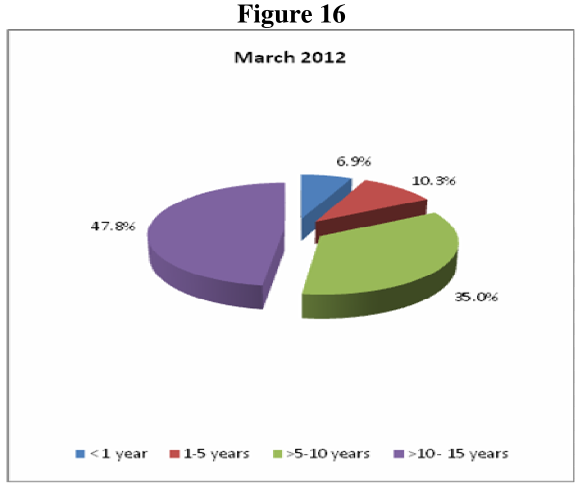
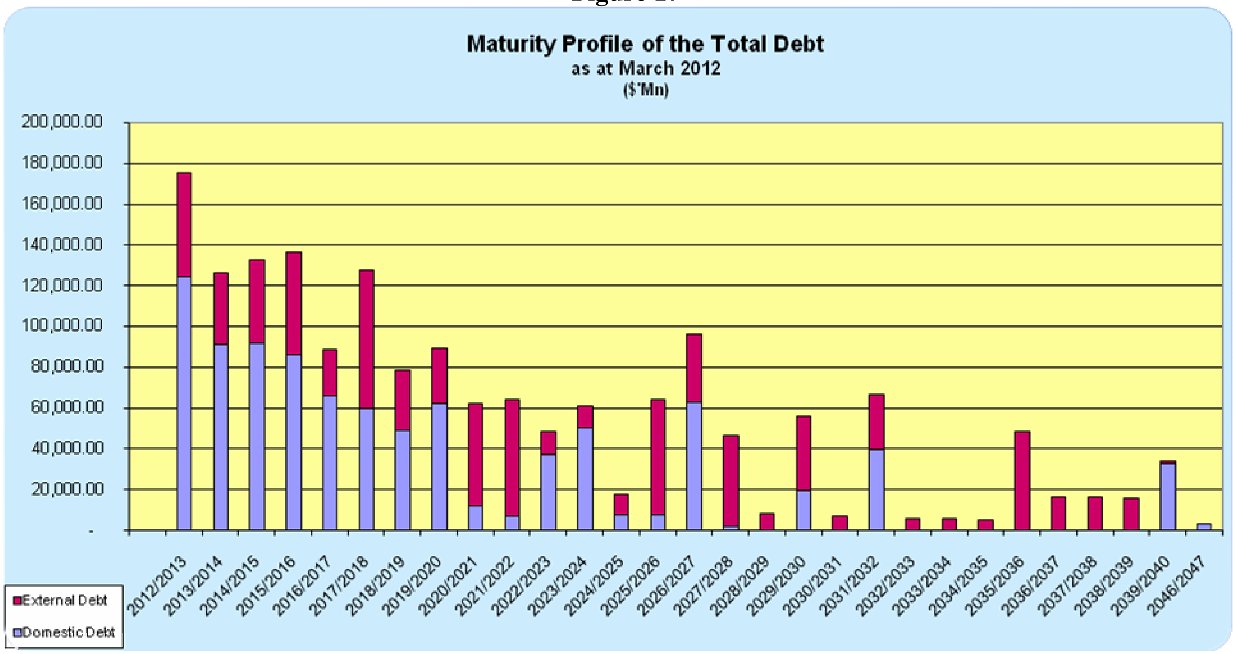


Figure 17



Currency Composition

19. Sovereigns borrow from a variety of creditor sources in different currencies to spread currency risk. In Jamaica, debt issued in the domestic market is usually in local currency. The preferred currency choice for loans from external sources is the US dollar, as this provides a natural hedge given that the country's external earnings and the Net International Reserves (NIR) are predominantly denominated in that currency. Debt service as a proportion of the NIR in FY 2011/12 was 64.2%.

20. At end FY 2011/12, local currency instruments amounted to $767,444.3 million or 84.1 % of the total domestic debt stock. The local currency component of the domestic debt stock was 4.1% lower when compared to the previous fiscal year. Foreign-currency denominated debt of $145,198.0 million in the domestic debt portfolio represents 15.9% of the stock, an increase of 2.3%. During FY 2011/12, the Government continued the strategy of no new issuance of marketable foreign currency-denominated debt in the domestic market.

21. At end-March 2012, US dollar debt accounted for the largest share of the external portfolio at 86.8%. This was 4.5% higher than at end-March 2011. The Euro and the Yen comprised 9.3% and 1.9% of the portfolio, respectively. The Euro portion declined by 4.3% over the review period due primarily to the refinancing of Euro 204.0 million with a US-dollar bond, causing the US-dollar share of the portfolio to increase. The remainder of the portfolio is comprised of Chinese Yuan (1.4%) and other currencies (0.3%).

Domestic Debt Stock by Currency Composition

Figure 18

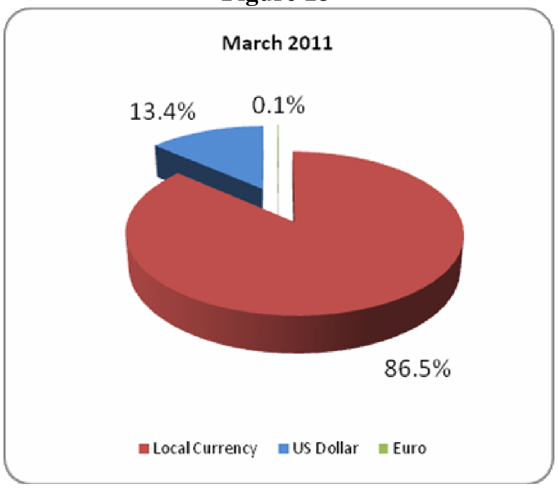
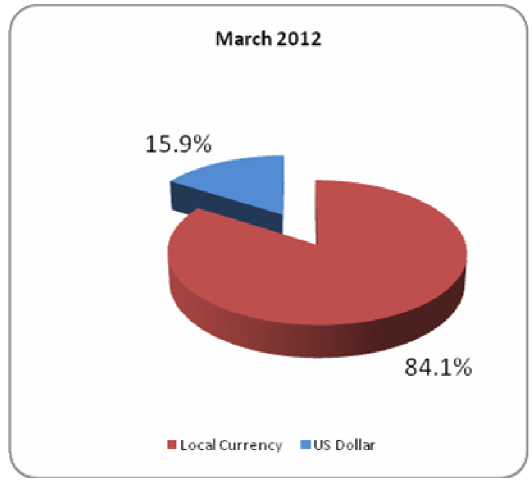


Figure 19



External Debt Stock by Currency Composition

Figure 20

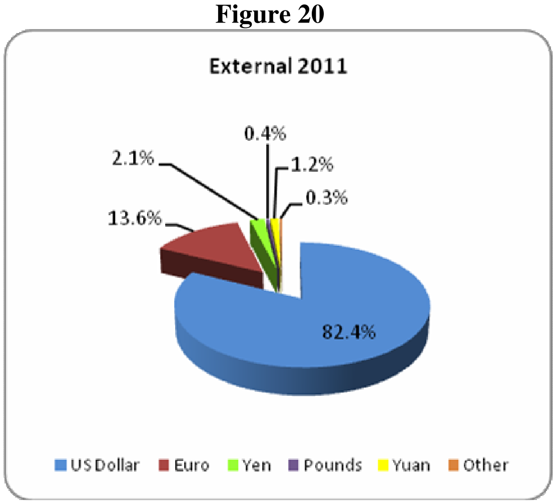
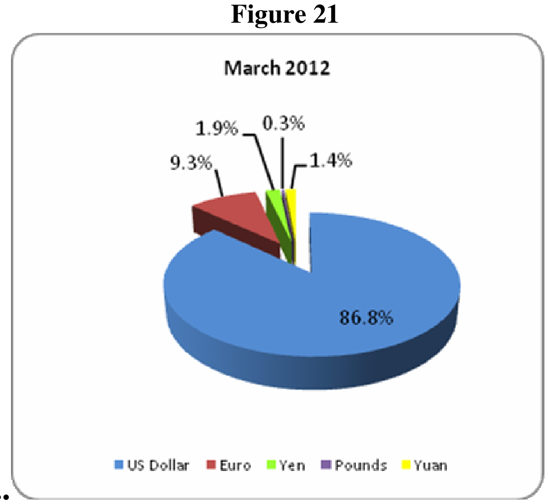


Figure 21



...

Trading Levels of Government of Jamaica Global Bonds

22. The ongoing slowdown in major economic centres during the fiscal year and events in the Euro-zone impacted trading activities in the international capital markets. A high co-relation between Euro-zone events and market volatility were noted. The trading levels of the bonds of some sovereigns were depressed. However, Jamaica's Eurobonds generally traded at or above par. Notably, the US$250 million 11.625% Bond due 2022 and the US$425 million 10.625% Bond due 2017 sustained exceptionally high trading levels, despite volatility in the markets. The favourable trading levels of the bonds demonstrated continued investor confidence in Jamaica over the review period.

Figure 22

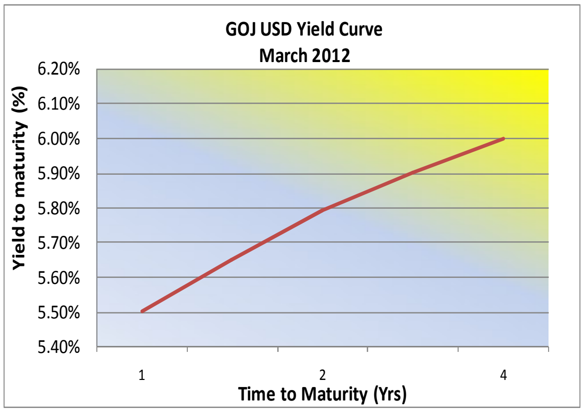
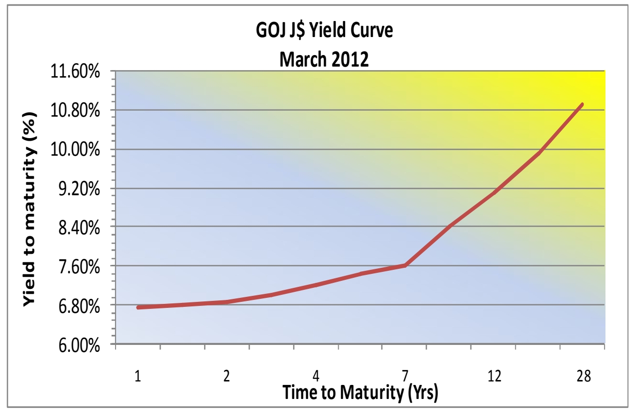


Figure 23



Country Rating

23. The three main rating agencies - Moody's Investor Services (Moody's), Fitch Ratings and Standard and Poor's (S&P) - conducted their review of the Jamaican economy during FY 2011/12. Moody's maintained its stable outlook on the Jamaican economy and the country's long-term foreign and local currency sovereign with a "B3" rating. Fitch Ratings maintained the country's sovereign rating with a stable "B", while S&P reaffirmed Jamaica's long-term foreign and local currency sovereign debt rating of "B-", with a negative outlook.

24. The ratings were underpinned by the country's relatively high level of institutional strength, its resilience to withstand external shocks, the population's acceptance of measures of austerity, and the Government's commitment to maintain fiscal discipline. The ratings were further supported by the country's unwavering commitment to pay its debt obligations as well as its political stability and highly democratic election process.

III. RISK ANALYSIS

25. There are several inherent risks in the debt portfolio. The Government has over the years, employed various measures to mitigate these risks and to minimise the impact of various exogenous shocks on the portfolio. The Government will continue to identify and mitigate risks to the implementation of the debt management strategy. Prudent debt management practices will be pursued over the medium-term with a view of satisfying the mandate as outlined in the MTDS.

Interest Rate Risk

26. One of the objectives of the strategy is to increase the issuance of fixed rate instruments in the portfolio. In recent years, the Government has generally been successful in mitigating interest rate risk in the debt portfolio by issuing significantly more fixed-rate

debt in the domestic market. This was due to proactive debt management operations, which entailed issuing an appropriate mix of fixed and variable-rate instruments in the domestic market to realize a balance between interest cost savings and minimizing interest rate risk.

Foreign Exchange Risk

27. At the end of FY 2010/11, following the Jamaica Debt Exchange (JDX), the Government took the decision to discontinue issuing foreign-currency denominated domestic debt to minimize foreign exchange risk in the domestic debt portfolio.

Box 1. Market Risk

Market risk reveals the possibility of increasing the debt stock as a consequence of changes in market conditions that impact the cost of debt securities, such as changes in short term interest rates, exchange rates and inflation.

Interest Rate Risk refers to the susceptibility of the debt portfolio to higher market interest rates. The impact of this risk may cause interest rates on variable and fixed rate debts that are maturing to be re-priced.

The impact of this risk on the public debt stock may be controlled through prudence exercised by the Government. Furthermore, debt officers would take into consideration the volatility and direction of rate changes the slope of the interest rate yield curve and the basis for re-pricing at rollover dates. Hence, the creation of variable or fixed rate instruments would be predicated on these considerations.

Foreign Exchange Risk is the possibility that the Government could sustain losses occurring from adverse movements in foreign exchange rates among currencies represented in the debt stock.

The level of exposure to this risk depends on the proportion of the debt stock that is denominated in foreign-currency. However, the potential negative impact of this risk may be mitigated through proper management. Methods to alleviate the impact may include execution of forward exchange contracts and hedging mechanisms.

28. However, due to a PetroCaribe Development Fund (PDF) loan to the Government, which was used to replace high-cost domestic debt at end-March 2012, total foreign-currency and foreign-currency-denominated loans in the debt portfolio amounted to $894,828.7 million (US$10,250.0 million) or a 53.9% share. This poses significant risk to the debt as a one percentage point depreciation in the Jamaica dollar against a basket of currencies[2] would result in an increase of over 0.5% in nominal terms or 0.6% of GDP.

---

[2] The US-dollar is the predominant currency in the foreign-currency and foreign currency-denominated in the overall debt portfolio. It accounts for 89% of the currency basket for these debts.

29. At end-March 2012 foreign-currency loans increased by $24,547.6 million (2.8%) relative to end-March 2011. The external debt declined by $11,367.2 million (3.2%). However, this was offset by an increase in the US$-denominated domestic loans of $35,915.1 million (24.7%), which was due largely to the Government's assumption of Air Jamaica's debts to PDF.

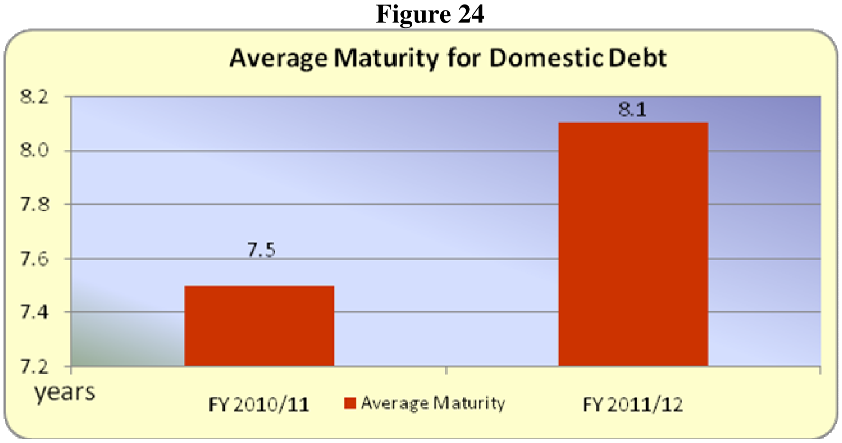
30. It is envisaged that over the medium-term the proportion of foreign-currency loans in the total debt portfolio will be maintained at manageable levels. The variation in the exchange rate as measured by 2-standard deviation over the last 20 years is 20.2%. The realization of such a variation in any one period over the medium-term poses significant risk to debt management and meeting targets and goals outlined in the MTDS. Overall, foreign exchange risk can be minimized by increasing the issuance of securities in the domestic debt market. This would lend support to the Government's mandate of advancing the development of the domestic capital market. However it poses some downside risk, as increased debt issuances in the domestic market may cause upward pressure on domestic interest rates.

Refinancing Risk in the Portfolio

31. At end-March 2012, the proportion of domestic debt falling due within one year increased to $109,121.3 million or 12.0% of the domestic portfolio relative to $47,214.2 million or 5.8% at end-March 2011. The proportion of external debt falling due within one year at end-March 2012 amounted to US$567.0 million or 6.6% of the external portfolio, compared to US$636.2 million or 7.2% at end-March 2011.

32. The Government is cognizant of the refinancing risk that is inherent in the current structure of the domestic debt portfolio and therefore has pursued the strategy to extend the maturity profile of newly contracted debt. During FY 2011/12 the average maturity on newly contracted debt was 11.6 years. During FY 2011/12 the average maturity of the domestic debt portfolio were 8.1, compared to 7.5 years at end-March 2011, respectively. (See Figure 24).

Figure 24



Box 2. Refinancing/ Rollover Risk

Refinancing risk measures the exposure of the debt portfolio to unusually high interest rates at the point at which debt is being refinanced. In extreme cases, when this risk is too high, debt managers are unable to roll over maturing obligations.

The following indicators measure the exposure to this risk:

- The redemption profile of the outstanding debt; that is, the sequence of principal payments arising from the outstanding stock of debt.
- Proportion of the debt stock falling due within a particular period, e.g. in the next 12 months.
- Proportion of the debt stock falling due within a particular period adjusted by liquid assets; that is, 'liquid cushions' in the form of FX reserves or cash balances that reduce the Government's vulnerability to refinancing risk.
- Average time to maturity.

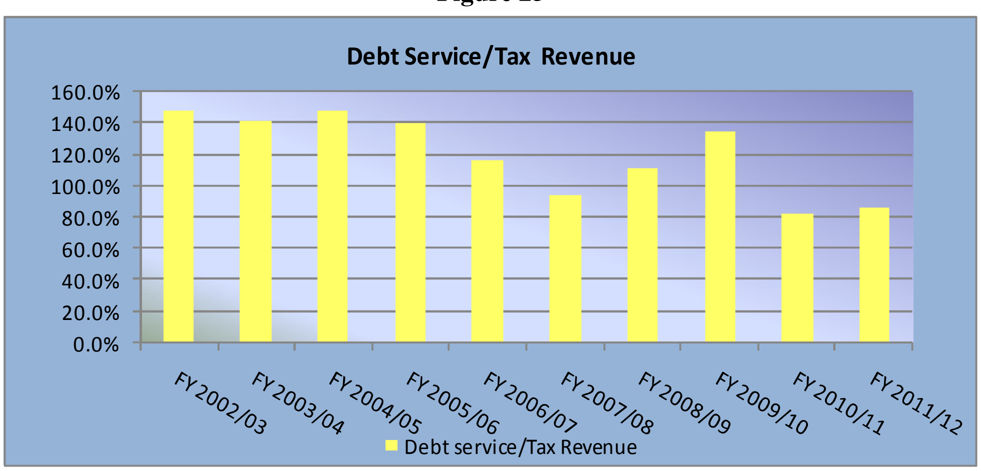
Liquidity Risk

33. Liquidity risk remains a challenge on overall fiscal operations, as tax revenue, though sufficient to cover debt service costs, does not cover overall expenditure. The continued reliance on external and domestic loans to partially fund central government operations poses a potential risk to the fiscal operations.

34. As a percentage of tax revenue, debt servicing costs at end-March 2005 was 147.9%. This has been substantially improved by end-March 2012, with debt servicing cost as a percentage of tax revenues at 85.9%, however the ratio remains relatively high.

35. The Government is committed to reducing liquidity risk over the medium-term through continued prudent fiscal and debt management practices. In recent years, the Government has made strides to minimise liquidity risk in the debt portfolio by building liquidity buffers. This is a reserve of budgetary resources available exclusively for debt service obligations.

Figure 25



Box 3. Liquidity Risk

Liquidity Risk is the probability that the Government may not raise adequate financing to satisfy its 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:

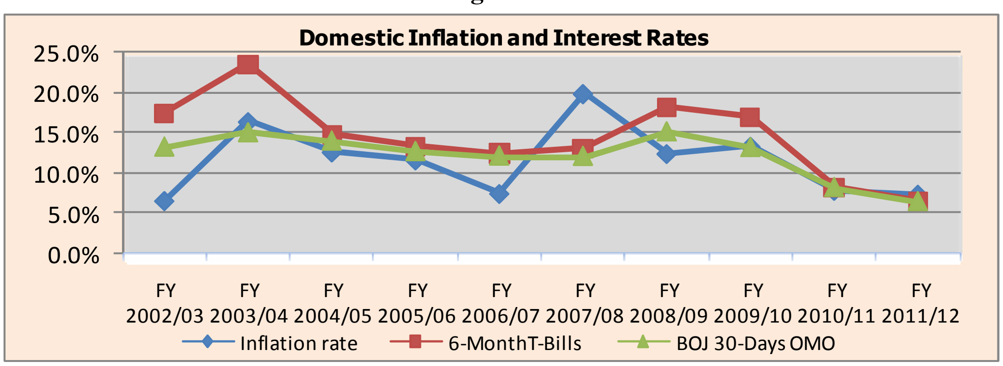
(a) return on investment not reflecting the appetite of the investors along the yield curve;
(b) uncertainty among investors arising from the socio-political environment; and
(c) instability created by geo-political events in the global environment could disrupt the credit market.

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

Inflation Risk

36. Jamaica is a small open economy that is vulnerable to exogenous and endogenous shocks, which have the propensity to increase inflation. Exogenous shocks in the form of increases in international commodity prices, in particular oil and food prices, decreases in price of export, e.g. bauxite, as well as unfavourable weather-related conditions have, in the past, adversely impacted the domestic inflation rate. There is a positive correlation between inflation and interest rate as has been demonstrated over the years (see Figure 26). Any sustained increase in the inflation rate is likely to result in a rise in interest rates and will, in effect, reduce the price of existing domestic bonds that are traded in the secondary market.

Figure 26



37. Explicit inflation risk in the debt portfolio as measured by the proportion of inflation-indexed bonds in the overall debt portfolio remains relatively low. Inflation-indexed bonds accounted for 2.9% and 2.8% of the domestic debt portfolio at end-March 2011 and 2012, respectively. Notwithstanding, inflation indexed bonds increased by $1,695.7 million (7.2%) at end-March 2012 relative to the similar period in 2011.

IV. REVIEW OF THE DEBT MANAGEMENT STRATEGY 2011/12

38. The Debt Management Strategy for FY 2011/12 comprehensively outlined the principal methods that would be utilized to meet the financial requirements at least cost, while prudently managing the risks that are inherent in the debt portfolio.

39. During FY 2011/12 the *Debt Management Strategy* was geared towards ensuring that the funding needs of the government were met at minimum cost, while keeping risks in the debt portfolio at acceptable levels and promoting the development of the domestic debt market. The specific objectives set out in the MTDS for FY 2011/12 were to:

- Restructure the debt management unit;
- Pursue enactment of legislation governing debt management;
- Create and improve benchmark bonds along the domestic yield curve;
- Issue new domestic bonds through the auction mechanism;
- Support and enhance the development of the domestic market;
- Generate reserves to provide flexibility in issuing long-term instruments;
- Explore the feasibility of external liability management operations;
- Enhance communication with market players and rating agencies;
- Continue to engage multilateral institutions and bilateral creditors; and
- Apply rigid cost-risk analyses to government guarantees and other contingent liabilities.

40. There were many challenges to achieving the objectives outlined in the MTDS for FY 2011/12. However, the government remained resolute in its efforts to realize its debt management goals and succeeded in making some progress.

Restructure the Debt Management Unit

41. During FY 2011/12 active steps were taken to restructure the Debt Management Unit (DMU) along the lines of international best practice into Back, Middle and Front offices. The process is ongoing and it is expected that it will be completed within FY 2012/13. The restructuring will facilitate additional analytical reporting on the Government's debt, improve efficiency by specialization of functions and enhance capacity building in the area of debt management. The Government's multilateral partners continue to provide assistance in this transformation process.

Pursue Enactment of Legislation Governing Debt Management

42. A draft Public Debt Management Bill was submitted to Parliament for ratification during the fiscal year. The Bill covers all the salient features of public debt management that promote sound debt management practice and sets out clear objectives for the management of public debt, mandates the preparation of a public debt management strategy, prescribes a framework within which decision-making would be made on the management of public debt and establishes accountability and reporting requirements. It is expected that the Bill will be passed during FY 2012/13.

Create and Improve Benchmark Bonds along the Domestic Yield Curve

43. During FY 2011/12, the Government, consistent with the MTDS, issued several domestic bonds along various segments of the yield curve. Debt issuance during the review period consisted of six (6) new instruments and the reopening of nine (9) Benchmark Notes, with tenors ranging from two (2) years to thirty-five (35) years. The primary objectives of the strategy were to build liquidity in the benchmark instruments, as well as deepen the development of the domestic capital market.

Issue New Domestic Bonds through the Auction Mechanism

44. The Government achieved limited success in utilizing the auction mechanism to price new domestic bonds during the review period, due to technical issues. Only three (3) new benchmark notes were issued by this method, however, the 28-day, 90-day and 180-day Treasury bills continued to be issued through the auction mechanism. A total of thirty-nine (39) auctions, with a nominal value of $25,400 million were conducted over the 12-month period.

45. The objective of facilitating the auction of Treasury bills within the JamClear-CSD was not met, as the review of the system was not finalized. Significant advances have been made in this regard and it is envisaged that this objective will be achieved during FY 2012/13.

Support and Enhance the Development of the Domestic Market

46. During the review period the Government continued to consult with the Bank of Jamaica (BOJ) regarding the establishment of a trading platform for domestic bonds. Significant progress has been made as the BOJ is currently in discussions with the Jamaica Stock Exchange regarding the use of the Global Fixed Income Trading System for the trading of GOJ fixed-income securities.

Generate Reserves to Provide some Flexibility in Issuing Long-term Instruments

47. During the fourth quarter of FY 2010/11, the GOJ issued a US$400 million 10-year bond on the ICM as conditions were favourable at that time. The funds were raised to satisfy amortisation requirements in May 2012. Amounts raised on the market provided a liquidity buffer for the Government for the first quarter of FY 2011/12. Consequently, the Government took advantage of its liquidity position to issue long-term instruments in the domestic market. However, while the Government was able to issue instruments of long tenor, the market demonstrated that it was more receptive to variable-rate instruments at the short end of the yield curve.

Explore the Feasibility of External Liability Management Operations

48. The intention of the Government to pursue a market-friendly external liability management operation during the FY 2011/12 was not operationalized as conditions were not favourable to facilitate this process. The Government however remains committed to prudent debt management which will seek to minimize the various risks, particularly refinancing risk in the debt portfolio. It is envisaged that this strategy objective will be achieved during FY 2012/13.

Enhance Communication with Market Players and Rating Agencies

49. During FY 2011/12 the Government held conference calls and hosted investor meetings in North America with key market participants and rating agencies. The Government continued to dialogue with the domestic market players through participation at Primary Dealers meetings, one-on-one meetings with key stakeholders, market surveys and conference calls. The primary objectives of the consultations were to provide an update on Jamaica's credit story, improve the relationship between the Government and the investing public and facilitate better pricing of securities.

Continue to Engage Multilateral Institutions and Bilateral Creditors

50. The Government of Jamaica partnered with multilateral institutions including the World Bank (IBRD), the Inter-American Development Bank (IDB) and the Caribbean Development Bank (CDB) to receive support for institutional strengthening, capacity building, infrastructural development and budgetary financing.

Apply Rigid Cost-risk Analyses to Government Guarantees and other Contingent Liabilities

51. During FY 2011/12, consistent with its stated objective to apply rigid cost-risk analysis, the Government evaluated requests for guarantees; however, none of these requests were supported on the basis that the fiscal and debt targets would be compromised.

V. ASSESSMENT OF THE MACROECONOMIC ENVIRONMENT

52. The Medium-term Debt Management Strategy has been developed within the context of the current macroeconomic environment and the medium-term fiscal policy profile of the Government. Following contractions in FY 2009/10 (2.6%) and FY 2010/11 (0.6%), the Jamaican economy expanded in real terms by 1.2% in FY 2011/12. Contributing to this growth were improvements in alumina/bauxite production and remittance flows from North America and Europe.

53. The near-term outlook for the Jamaican economy features single-digit inflation of 6-8 percent for FY 2012/13, with upside risks stemming from the fiscal consolidation measures to be undertaken during the year. Notwithstanding the fact that these measures are expected to impact inflation in FY 2012/13, inflation is expected to normalize at pre-budget rates thereafter. Volatility in oil prices could exacerbate inflationary pressures in FY 2012/13, particularly if geo-political tensions become heightened in 2012.

54. On the growth side, real GDP is projected to slow in FY 2012/13, but remain positive, in the range of 0.0-1.0 percent. Expectations are for continued weak demand, particularly in the context of a tighter fiscal budget. The US economy is anticipated to continue with its steady recovery, which augurs well for Jamaica's tourism, goods exports and remittance flows.

Risk Factors to the Domestic Economy

55. Analysis undertaken in developing the MTDS is underpinned by the assumption that the Government will adhere to its articulated medium-term fiscal policy. In addition, continued stable macroeconomic fundamentals, such as interest and exchange rates, are critical to the analysis undertaken. The assumptions postulated in the macroeconomic projections will shape the fiscal path and by extension, the dynamics of the debt over the medium-term. Therefore, any negative deviation in the macroeconomic fundamentals over the period could have an adverse effect on the debt trajectory.

56. The following are the potential risks to the macro economic framework:

- Revenue growth rising at a slower pace than anticipated;
- Non-realization of planned loan inflows from the multilaterals, which may result in the Government borrowing more from the domestic market;
- Exogenous shocks including natural disasters which could cause fiscal slippage;
- Increases in commodity prices that could drive the domestic inflation rate upwards;
- Significant reduction in net international reserves occasioned by accelerated deterioration in international trade balances; and
- Depreciation of the local currency vis-à-vis the major international currencies.

Financing and Macroeconomic Assumptions

57. The macroeconomic environment will help to shape economic growth, fiscal operations and by extension the level of debt that the government will contract to fund its activities. The demand for Government debt is in part a function of these inter-connected events. Thus, the *Medium-term Debt* Strategy is framed within the context of certain assumptions made about the domestic economy and financial markets, which are the foundation on which the successful execution of the strategy relies.

Financing Assumptions

External sources

58. It is assumed for the purpose of this analysis that external loans will be contracted from:

- Multilateral and bilateral sources; and
- Bonds issued on the ICM.

Domestic Sources

59. As outlined previously, the Government will issue/reopen a variety of instruments along the domestic yield curve to satisfy its borrowing requirements, as well as to meet the demand of investors. The domestic debt instruments while geared towards meeting financing obligations at least cost and acceptable level of risk will be offered to further develop and facilitate a deep and liquid secondary market in the trading of GOJ bonds.

Macroeconomic Assumptions

60. The ***Debt Management Strategy*** is predicated on certain assumptions on GDP growth, inflation, exchange rate, trade balances and other macroeconomic variables. Underpinning the macroeconomic assumptions made in this document are estimates of

future outcomes of different macroeconomic variables based on forecast methods using dynamic programming and other econometric models, which were supplied by various Government entities. The models were developed and enhanced over time to provide best estimates regarding the future state of the Jamaican economy.

VI. FY 2012/13 - FY 2014/15 MEDIUM-TERM DEBT MANAGEMENT STRATEGY

61. The objective of the *Debt Management Strategy* is to adequately finance the budget at minimum cost while maintaining an acceptable level of risk in the debt portfolio. The strategy also seeks to enhance the development of the domestic capital market and to facilitate greater transparency in debt operations.

62. The MTDS encapsulates a comprehensive approach to the formulation of a debt strategy, identifying possible constraints through the dynamics of macroeconomic variables; cost/risks trade-offs and market conditions relative to debt management. It involves the process of providing analysis on all feasible alternatives while taking into consideration all relevant costs and risks.

63. The scope of the MTDS will include Central Government domestic and external debt, as well as assumed publicly-guaranteed external debt. Explicit domestic guarantees, although not included, are closely monitored and reported to the House of Representatives on a periodic basis.

Public Debt Management Guidelines

64. The management of the public debt for the medium-term will be guided by the following:

- Gradually increase the proportion of fixed rate debt;
- Extend and smooth the maturity profile of the debt portfolio;
- Implement an effective investor relations programme;
- Develop the domestic debt market;
- Create and improve benchmark bonds along the Domestic Market Yield Curve; and
- Generate liquidity buffers.

65. Four strategies were assessed and analyzed to determine the strategic path that the Government should take with respect to debt operations over the medium-term. The debt portfolio was subjected to exogenous shocks and the impact of these shocks was evaluated based on cost/risk analysis in order to select the most appropriate strategy.

Strategy 1: A mix of 60% variable and 40% fixed rate instruments in the domestic portfolio

66. This strategy follows the current debt management practice of refinancing all maturing external bonds with debt from external commercial and/or multilateral sources, except for year 1 where greater amounts of external debt are contracted relative to external amortization. The fiscal deficit is financed primarily through the issuance of domestic debt.

67. The securities to be issued in the domestic market consist of a mixture of fixed and variable rate bonds and a minimal amount of CPI-Indexed Bonds. Instruments are to be issued along all segments of the yield curve with greater emphasis on the longer end, as the Government is cognizant of the bunching of maturities over the medium-term. The Government, being mindful of the current market environment and investors' reluctance to purchase long-dated securities will seek to create liquidity buffers to mitigate the risk to the cash flow.

68. There are inherent risks associated with this strategy, in particular exchange rate, refinancing, interest rate and other demand side risks. The upside to this strategy, however, is that it will promote diversity of the investor base in both domestic and foreign debt, and lend support to the Government's strategy of balancing the debt portfolio over the medium-term.

69. This strategy lends support to the objective of improving and enhancing the development of the secondary market, through the reopening of benchmark bonds via the auction mechanism for the market to determine the price of domestic bonds.

Strategy II: Issuance of equal proportion of fixed and variable rate bonds in the domestic debt portfolio

70. The only variation between strategy II and strategy I is that strategy II employs an equal proportion of new issuance of variable and fixed rate bonds in the domestic market over the medium-term. It is envisaged that conditions in the market will not be conducive for the Government to explore the option of issuing a high proportion of fixed-rate instruments over the medium-term.

71. The Government recognises that investors may be reluctant to purchase fixed-rate securities over the medium-term if their outlook on the domestic economy is cautious. During the previous fiscal year it was anticipated that a high proportion of fixed rate instruments would be issued in the domestic market; however, due to investors' unfavourable outlook on the domestic economy this was not achieved.

Strategy III: More Long-term Fixed Rate Debt

72. This strategy option allows for variable-rate domestic debt to be replaced by longer term fixed-rate instruments. The objective is to lengthen the maturity profile of the debt and take advantage of the relatively low interest rate that currently prevails in the domestic market. Although the Government endeavours to maintain macroeconomic stability and facilitate economic growth through prudent fiscal management, it is possible that exogenous shocks could occur which would have an adverse effect on the current interest rate trajectory and debt service costs. This strategy is geared toward, among other things, mitigating the impact of increased debt servicing costs resulting from higher increases in domestic interest rates.

Strategy IV: More Domestic Financing from Short-term Variable-rate Instruments, No Access to International Capital Market Funds, Minimal Multilateral and Bilateral Financing

73. This strategy assumes that the country is unable to access funding from the International Capital Markets with limited funds available from multilateral and bilateral institutions. It assumes deterioration in the country's macroeconomic profile where investors are speculative and unwilling to hold long-term, fixed-rate Government securities. This strategy assumes that the majority of debt contracted in the domestic market is on a short-term variable-rate basis, which would have higher short term interest cost but higher refinancing risk.

VII. SCENARIOS

74. The Borrowing strategies were subjected to stress testing under four (4) scenarios:

- Scenario 1: **C*ountry specific depreciation of the Jamaica dollar***. Under this scenario in FY 2013/14 the Jamaica dollar depreciates by 2 standard deviations[3], or 20.2% relative to the US dollar. This is a permanent shock.

- Scenario 2: ***Parallel Shift in domestic yield curves***. The cost of all market-based domestic borrowing increases by 600[4]basis points. This is done to realign rates with what they were prior to FY2009/10.

- Scenario 3: ***Parallel Shift in US Treasury yield curve***. The cost of all market-based borrowing increases in all years by 200 basis points, which is permanent.

- Scenario 4: ***This is a combination shock.*** In this scenario the Jamaica dollar depreciates by 10.1% relative to the US dollar, domestic interest rates increase by 300 basis points and international interest rates increase by 100 basis points.

75. Table 1 summarizes the objectives underpinning the four (4) strategies, the rationale for their implementation and the trade-off inherent in each alternative strategy.

[3]The annual standard deviation for the depreciation of the Jamaica dollar over a 20 year period from FY1993/1994 - FY 2011/12 is 10.1%.

[4] Prior to the JDX interest rates on domestic debt averaged 18% per annum.

Table 1

	Strategy I	Strategy II	Strategy III	Strategy IV
External Issuance	**US$900mn in year 1: US$500mn capital market and US$400mn from the Multilaterals. In years 2 and 3, external commercial loans will be contracted to cover external amortization and multilateral loans contracted to fund capital projects**			**Only Multilateral loans to fund infrastructural projects**
Domestic Market Issuance	**Portfolio comprises mostly variable rate instruments issued along the short-end of the yield curve**	**Portfolio comprises 50% variable- and fixed-rate instruments issued along all segments of the yield curve**	**Portfolio comprises mostly fixed rate domestic instruments issued along the longer end of the yield curve**	**No access to external capital market. Domestic bonds issued to fund external maturities. Mostly variable-rate instruments with tenor less than 10 years**
Benefits	**Lower interest costs**	**Reduced interest rate and rollover/liquidity risk**	**Reduced interest rate and rollover/liquidity risk**	**Reduced FOREX risk**
Trade-off	**Higher interest rate, refinancing and FOREX risks**	**Higher FOREX risk**	**Higher debt service cost and FOREX risk**	**Higher debt service Cost**

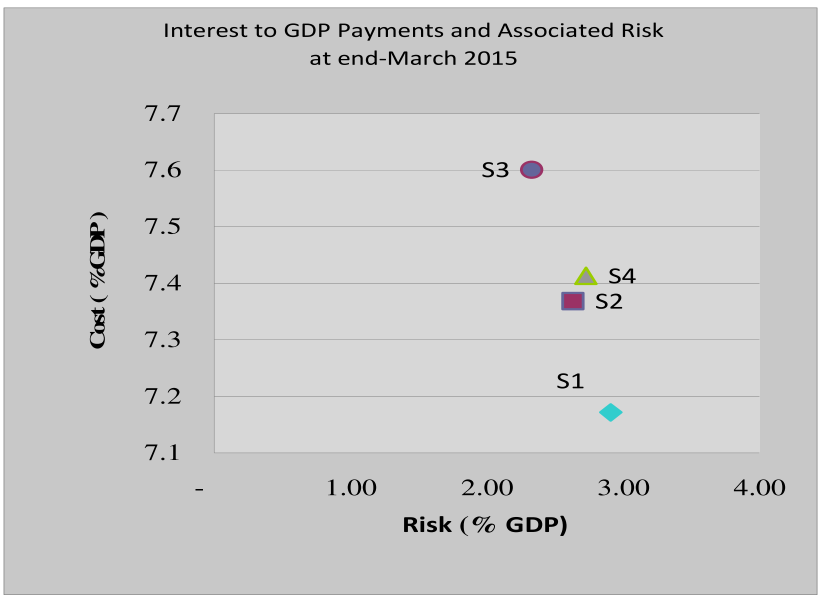
Table 2

	Interest Cost /GDP (%)			
	S_I	S_{II}	S_{III}	S_{IV}
Baseline	7.1	7.3	7.6	7.4
Domestic Interest Rates Increase by 6%	9.7	9.6	9.5	9.8
External Interest Rates increase by 2%	7.1	7.3	7.6	7.4
Devaluation of the J$ by 20.2% in FY 13/14	7.7	7.9	8.2	7.9
Domestic Interest Rate Increase by 3%, External Interest Rate increase by 1.0%, and Devaluation of the J$ by 10.1%	10.0	10.0	9.9	10.1

Table 3

Risk Indicators		Baseline	S_I	S_{II}	S_{III}	S_{IV}
Implied interest rate (%)		8.3	7.7	7.9	8.1	8.0
Refinancing risk	ATM External Portfolio (years)	8.7	9.8	9.8	9.8	9.5
	ATM Domestic Portfolio (years)	8.0	7.9	9.6	13.1	9.8
	ATM Total Portfolio (years)	8.3	8.8	9.7	11.6	9.7
Interest rate risk	ATR (years)	4.9	4.6	6.7	9.6	6.3
	Debt refixing in 1yr (% of total)	44.9	53.2	45.7	34.4	48.9
	Fixed rate debt (% of total)	60.4	51.3	58.1	68.4	55.0

Figure 27



VIII. IMPLEMENTATION METHODOLOGY

Selection of a Debt Strategy

76. Following stress-testing of the alternative strategies, ***Strategy I*** was selected as the strategy to be pursued over the medium-term. In light of the present market conditions, the Government believes that this strategy is congruent with its overall macroeconomic objective which, *inter alia,* aims to reduce debt service costs and debt as a percentage of GDP as outlined in the FY 2012/13 Fiscal Policy Paper.

77. ***Strategy I*** has the lowest interest to GDP cost at 7.1%. This is followed by *Strategy II at 7.3%**.** As shown in Table 3,* Strategy I has the highest risk factor with respect to the impact of a shock in baseline interest rate at about 2.9% of GDP. However, this is within reasonable range of Strategy II which has the lowest interest risk indicator of 2.3% of GDP. ***Strategy* I** has the highest proportion of debt re-fixing, on average in one year, of 53.2%. **Strategy II** has the lowest proportion of debt re-fixing in one year at 34.4%. The Average Time to Maturity (ATM)[5] for the total portfolio for **Strategy I** is 8.8 years, which is 3 years lower than the ATM for **Strategy III**, which has the highest ATM of 11.6 years.

78. Although the evidence indicates that some of the other strategies have relatively better indicators (such as ATM and ATR) than **Strategy I**, the reality of the market demand and the current economic conditions ranks this strategy above the others. The Government recognizes the demand-side risk for its menu of instruments and given the feedback provided by market players and other stakeholders, it is strongly considered that this strategy is optimal given the prevailing conditions.

IX. LIABILITY MANAGEMENT EXERCISE

79. Consistent with the objective of the *Debt Management Strategy* to raise adequate levels of financing on behalf of the Government at minimum costs, while maintaining prudent levels of risk,, the Government will pursue a market-friendly Liability Management (LM) exercise designed to extend and smooth existing maturities by way of an exchange of near-term maturities and buyback of high cost external debt.

80. The proposed LM operation will be structured to achieve an extension in the maturity profile thereby reducing refinancing risks, increase liquidity in the targeted bond(s) to qualify for JP Morgan Emerging Bond Index (EMBI) eligibility and assist in insulating the Government against a rise in funding costs in the near future.

X. ANNUAL BORROWING PLAN

81. The Annual Borrowing Plan (ABP) is developed within the context of the Debt Management Strategy, the Estimates of Expenditure and the Financial Statements and Revenue Estimates, for FY 2012/13. The plan provides an opportunity for prospective investors in GOJ securities to adjust their portfolios in advance, to successfully participate in the issuances. The borrowing requirement for the year is projected at $249,476.0 million. The sources of funding are itemized in the table below.

[5] Average Time to Maturity, also known as Average Residual Life, gives information on the length of the debts life, i.e. average residual maturity.

Table 4

Domestic & External Funding Source and Issuance Strategy			
Local Capital Market			J$140,020.0mn
	FY 2011/12		**FY 2012/13**
		% Lower Limit	*%* Upper Limit
Fixed Rate	10.7	30	40
Variable Rate	89.3	60	70
CPI-Indexed	-		
External Funding Source			
	$		**$**
Multilateral:	320.0mn		550.0mn
Other Sources:			
Existing Project Loans			171.2mn
183.4mn			
Private Creditors			500.0mn

82. In order to maintain transparency and predictability of its debt issuance the Government will publish schedules of upcoming domestic market issues. The schedule for the first six months of FY 2012/ 13 is outlined below:

Table 5

SUBSCRIPTION DATE	INSTRUMENT TYPE
April 18, 2012	1-month Treasury Bill Tender
April 25, 2012	3-month Treasury Bill Tender
April 25, 2012	6-month Treasury Bill Tender
April 26 – 30, 2012	Reopen VR Benchmark Note 2013A
May 09 - 11, 2012	Reopen VR Benchmark Note Due 2022
May 16, 2012	1-month Treasury Bill Tender
May 16, 2012	3-month Treasury Bill Tender
May 16, 2012	6-month Treasury Bill Tender
May 24 - 28, 2012	New Issue FR 7.25% Benchmark Note 2015
June 13 - 15, 2012	Reopen VR Benchmark Note Due 2022
June 20, 2012	1-month Treasury Bill Tender
June 20, 2012	3-month Treasury Bill Tender
June 20, 2012	6-month Treasury Bill Tender
July 04 – 06, 2012	Reopen FR 12.625% Benchmark Note Due 2016
July 18, 2012	1-month Treasury Bill Tender
July 25, 2012	3-month Treasury Bill Tender

July 25, 2012	**6-month Treasury Bill Tender**
July 25 - 27, 2012	**Reopen VR Benchmark Note Due 2018**
August 08 – 10, 2012	**Reopen VR Benchmark Note Due 2022**
August 08 – 10, 2012	**Reopen FR 12.875% Benchmark Note - 2024**
August 15, 2012	**1-month Treasury Bill Tender**
August 15, 2012	**3-month Treasury Bill Tender**
August 15, 2012	**6-month Treasury Bill Tender**
August 24 - 28, 2012	**Reopen FR 7.25% Benchmark Note Due 2015**
August 24 - 28, 2012	**Reopen FR 13.25% Benchmark Note - 2040**
September 12 - 14, 2012	**Reopen VR Benchmark Note Due 2020A**
September 12 - 14, 2012	**Reopen CPI-Indexed Invest Note – Due 2022**
September 19, 2012	**1-month Treasury Bill Tender**
September 19, 2012	**3-month Treasury Bill Tender**
September 19, 2012	**6-month Treasury Bill Tender**
September 26 - 28, 2012	**Reopen FR 7.25% Benchmark Note Due 2015**

83. Additional schedules will be published for the last six months of the fiscal year. It is envisaged that the domestic borrowing requirement of $140,020.0mn for FY 2012/13 will be met from the issuances indicated in the schedules.

Peter D. Phillips, PhD, MP
Minister of Finance and Planning
May 24, 2012

XI. ACRONYMS

ABP	-	Annual Borrowing Plan
AT	-	Analytical Tool
BOJ	-	Bank of Jamaica
CDB	-	Caribbean Development Bank
CG	-	Central Government
DMU	-	Debt Management Unit
EMBI	-	J.P. Morgan Emerging Market Bond Index
FAA Act	-	Financial Administration and Audit Act
FR	-	Fixed Rate
FRF	-	Fiscal Responsibility Framework
GDP	-	Gross Domestic Product
GOJ	-	Government of Jamaica
IBRD	-	International Bank for Reconstruction and Development (also, The World Bank)
ICM	-	International Capital Markets
IDB	-	Inter-American Development Bank
JamClear-CSD	-	Jamaica Clearing and Settlement Assured in Real Time, Central Securities Depository
JDX	-	Jamaica Debt Exchange
MOFP	-	Ministry of Finance and Planning
MTDS	-	Medium Term Debt Management Strategy
NIR	-	Net International Reserves
PBMA	-	Public Bodies Management and Accountability Act
PDMA	-	Public Debt Management Act
S & P	-	Standard & Poor's
VR	-	Variable Rate

XII. GLOSSARY

Amortization
Amortization refers to principal repayments on loans. These repayments reduce the borrowed money by portions, which are usually fixed amounts expressed as a percentage of the whole. Most of the domestic debt has a bullet repayment - the entire principal is repaid at maturity rather than gradually over the term of the loan.

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 Issues
Issues of securities that are sufficiently large and actively traded, such that their prices serve as reference for other issues of similar maturities.

Commonwealth Debt Initiative (CDI)
A programme of the Government of the United Kingdom launched in 1997 to cancel the debt of poor to middle-income Commonwealth countries that are committed to international development targets.

Consolidated Fund
The Consolidated Fund is the principal Government account to which all Government revenues must be deposited and from which expenditure, via warrants, is withdrawn.

Contingent Liabilities
The potential obligations of the Government, as guarantor, having provided a form of security to the lender for a loan or credit facility on behalf of a public sector entity.

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).

JP Morgan Emerging Markets Bond Index (EMBI)
The EMBI is a benchmark index for measuring the total return performance of international government bonds issued by emerging market countries. Inclusion in the index requires that the debt be more than one year to maturity, have more than $500 million outstanding, and meet stringent trading guidelines to ensure that pricing inefficiencies don't affect the index.

Eurobond
A bond underwritten by international investors and sold in countries other than the country of the currency in which the issue is denominated. Jamaica issued a five-year, US$200mn Eurobond in July 1997, its first ever.

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.

Local Registered Stock (LRS)
The term refers to medium and long term debt instruments issued by Government. LRS is issued both to finance Government operations and to support macroeconomic and monetary objectives. Since October 1999, LRS has been offered to the market using the auction system.

Par
Par is the nominal or face value of a security. A bond being issued at par, for example at $100, is worth the same $100 at maturity.

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

Public Debt Charges / Public Debt
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 charges are interest payments on the loan obligations and include related incidental expenses such as service fees, late payment penalties and commitment fees.

Schedule B/Shelf Registration Statement
A facility with the US Securities Exchange Commission, which allows for the registration of securities intended to be issued in the future.

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 Bill
Treasury Bills are instruments designed to provide Government with short-term financing to meet temporary cash needs arising from fluctuations in cash revenue. Treasury Bills are no longer limited in use to this strict interpretation. They are now being used by Government as a tool in its open market operations for liquidity management.

US Dollar Indexed Bonds
Interest and principal are protected from adverse changes in the exchange rate as adjustments are made for movements in Jamaica dollar vis-à-vis the US dollar.

Interest payments are made on a fixed rate basis on the exchange rate adjusted principal.
The index for measuring the applicable rate of exchange has been the 10-day moving average selling rate as published by the Bank of Jamaica 10 days prior to the respective due dates. Interest and principal are generally payable in Jamaica dollars. US Dollar Indexed Bonds were introduced in July 1999.

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 resulting curve shows if short-term interest rates are higher or lower than long-term interest rates.

XIII. ACKNOWLEDGEMENT

The Ministry of Finance and Planning would like to thank the World Bank for their continued support in providing training and technical assistance in the update of Jamaica's Medium-term Debt Management Strategy.

XIV. APPENDIX I
SIGNIFICANT DEVELOPMENTS IN DEBT MANAGEMENT

▪ July 1997	– Jamaica's entry into the International Capital Markets
▪ March 1998	– Initial sovereign rating by Moody's Investors Service
▪ April 1, 1998	– Establishment of the Debt Management Unit
▪ April 1998	– Consolidation and centralization of debt management functions within the Ministry of Finance and Planning
▪ June 1999	– Long-Term Savings Accounts introduced
▪ June 1999	– Implementation of 15% tax on interest withheld at source
▪ July 1999	– US$ indexed-linked bonds introduced in the domestic market
▪ October 1999	– Auction system for the sale of Local Registered Stocks (LRS) introduced
▪ November 1999	– Initial sovereign rating by Standard & Poor's
▪ April 2000	– First publication of the *Debt Management Strategy*
▪ April 2000	– Implementation of 25% tax on interest withheld at source
▪ March 2001	– Jamaica included as case study in IMF/World Bank publication of *Guideline for Public Debt Management*, as implementing prudent debt management practices consistent with the Guidelines
▪ April 2001	– First 12-year LRS sold by auction. A total of six 12-year LRS' issued by auction during FY 2001/02
▪ May 2001	– First 10-year global Eurobonds issued
▪ December 2001	– First 20-year Eurobonds issued
▪ December 2001	– Schedule B Registration Statement filed with the United States' Securities and Exchange Commission (US SEC)
▪ February 2002	– "Shelf" Registration Programme established with the US SEC
▪ June 2003	– First 15-year LRS sold by auction
▪ September 2003	– First 30-year LRS sold by auction
▪ April 2004	– Launch of quarterly Investors' Conference Call
▪ November 2004	– Publication of quarterly financing requirements
▪ March 2005	– Jamaica selected as a member of the Steering Committee on the Latin American and Caribbean Debt Group
▪ May 2005	– Jamaica ended its borrowing relationship with the IMF by fully repaying all outstanding debt to that institution
▪ June 2005	– Air Jamaica, the national airline, successfully accessed the international and regional capital markets
▪ February 2006	– First 30-year global Eurobonds issued
▪ March 2007	– First 32-year amortizing Eurobonds issued
▪ October 2007	– First large and liquid bond with eligibility to the JP Morgan Emerging Bond Index (EMBI)
▪ January 2010	– Launch of the Jamaica Debt Exchange (JDX)
▪ February 2010	– Exchange of 350 small bonds to 25 liquid benchmark bonds
▪ February 2010	– Dematerialization of GOJ Securities
▪ February 2011	– Second GOJ Global Bond to enter the EMBI