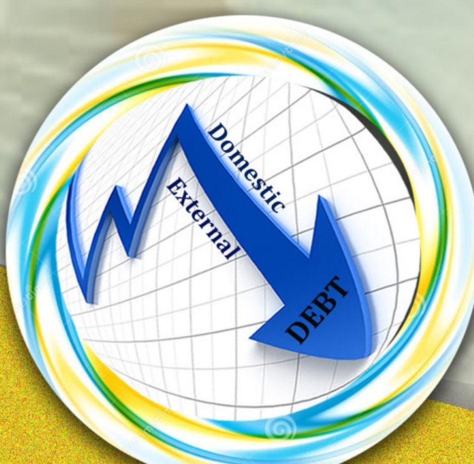
GOVERNMENT OF JAMAICA

MEDIUM-TERM DEBT MANAGEMENT STRATEGY
FY2016/17 - FY2018/19



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LIST OF ABBREVIATIONS

ABP	Annual Borrowing Plan
ATM	Average Time-to-Maturity
ATR	Average Time-to-Refixing
BOJ	Bank of Jamaica
BPS	Basis Points
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CPI	Consumer Price Index
DMB	Debt Management Branch
EFF	Extended Fund Facility
ERP	Economic Reform Programme
FAA Act	Financial Administration and Audit Act
FOMC	Federal Open Market Committee
FR	Fixed-Rate
FRF	Fiscal Responsibility Framework
FY	Fiscal Year
FX	Foreign Exchange
GDP	Gross Domestic Product
GOJ	Government of Jamaica
ICM	International Capital Market
IDB	Inter-American Development Bank
IMF	International Monetary Fund

IR	Investor Relations
JMD	Jamaica Dollar
JSE	Jamaica Stock Exchange
LIBOR	London Inter-Bank Offered Rate
MTDS	Medium-Term Debt Management Strategy
NDX	National Debt Exchange
NIR	Net International Reserves
PBMA Act	Public Bodies Management and Accountability Act
PCDF	PetroCaribe Development Fund
PDMA	Public Debt Management Act
PDVSA	Petroleo de Venezuela, SA
PPSA	PDVSA Petroleo de Venezuela, SA
REPO	Repurchase Agreement
USD	United States Dollar
VR	Variable-Rate

FOREWORD

The Government of Jamaica (GOJ) updates and compiles the Medium-Term Debt Management Strategy (MTDS) on an annual basis, utilizing a set of analytical tools and procedures. This is mandated by the Public Debt Management Act, 2012 (PDMA) and is integral to the country's debt management operations.

The MTDS FY2016/17 – FY2018/19 presents the Government's annual borrowing plan which details the financing requirements for the fiscal year, sources of funding and the instruments that the Government plans to issue to achieve the desired debt composition. Additionally, the MTDS is aligned to the GOJ's strategic priorities and policy objectives and supports the continued reduction of the public debt-to-GDP ratio to a sustainable level.

The strategy also seeks to further develop and deepen the domestic bond market which was reactivated in February 2016. The GOJ will continue to be proactive in engaging stakeholders through dialogue and information dissemination.

In keeping with the enhanced fiscal rules legislation, the **MTDS FY2016/17 - FY2018/19** is being tabled along with other budget documents. The GOJ remains committed to continued transparency in its debt management operations.

The GOJ welcomes comments on the document at: invrelinfo@mof.gov.jm

Audley Shaw, CD,MP
Minister of Finance and the Public Service
April 14, 2016

Devon Rowe, CD
Financial Secretary
April 14, 2016

ACKNOWLEDGEMENTS

The MTDS FY2016/17-FY2018/19 will guide debt management operations for the medium term and continues to play an integral role in the achievement of the GOJ's goals for public debt management strategies within the macroeconomic framework to fund budgetary needs.

I would like to thank the DMB for their continued commitment to the production of this document. I would also like to express special thanks to Miss Darlene Morrison, the Deputy Financial Secretary, Economic Management Division, Mrs. Michele Robinson, Debt Management Consultant; IMF consultants, Diego Rivetti and John Gardner as well as the Public Debt Management Committee for their support, guidance and input.

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EXECUTIVE SUMMARY

The Medium Term Debt Management Strategy (MTDS) FY2016/17 – FY2018/19 is the Government of Jamaica's (GOJ's) publication that will guide management of the public debt over the stated period. The current MTDS builds on previous debt management strategies, with the aim of meeting the Government's borrowing needs at the lowest cost, minimizing risks in the portfolio, and promoting the development of the domestic debt market.

During fiscal year 2015/16 (the review period) the debt-to-GDP ratio continued its downward trajectory, declining from 137.3% at end-FY2014/15 to 124.5% at end-FY2015/16. During the review period, the Central Government executed a significant liability management operation through the purchase of a substantial portion of Jamaica's debt under the Petrocaribe Energy Cooperation Agreement with Venezuela. The liability management operation contributed an approximate 10 percentage point reduction to the debt-to-GDP ratio. The debt purchase was financed through the issuance of two bonds in the International Capital Markets (ICM) that raised a total of US$2.0 billion. This represented the largest capital market issue by the GOJ as well as the lowest coupons for Jamaica in the medium- to long-term segments of the external yield curve.

The debt portfolio continues to be exposed mainly to foreign currency and interest rate risks. To mitigate these risks, the Government's strategy will focus on increasing domestic issuances in local currency and on extending the maturity profile of the debt. Consequently, the FY2016/17 Annual Borrowing Plan (ABP) includes a mix of domestic issues and external loans to satisfy the Government's financing requirements, while simultaneously targeting achievement of the debt targets mandated under the Fiscal Responsibility Framework (FRF).

After a three year absence, the Government successfully re-entered the domestic bond market with three issues in February 2016. The issues which targeted the short, medium, and long segments of the yield curve were oversubscribed by approximately 116.4%. Over the medium-term, the Government will maintain a presence in the domestic debt market, facilitating market development, while pursuing rebalancing of the debt portfolio toward local currency dominance.

The GOJ is confident that implementation of the MTDS alongside on-going fiscal consolidation, will keep debt-to-GDP on a sustainable downward trajectory.

SECTION I: INTRODUCTION

The Medium-Term Debt Management Strategy (MTDS), updated on an annual basis and underpinned by the Fiscal Responsibility Framework (FRF) and the Public Debt Management Act (PDMA), 2012, outlines the Government's three-year action plan to ensure that financing requirements are met at low costs with prudent degrees of risk.

The overarching objective of the MTDS is to satisfy the Government's borrowing needs at minimum costs and prudent levels of risk. The strategy also seeks to enhance the development of the domestic capital market and to facilitate continued transparency in debt operations.

The MTDS FY2016/17-FY2018/19 document includes:

- A review of the debt portfolio and macroeconomic environment during FY2015/16;
- The cost/risk assessment and selection of a strategy;
- The issuance profile based on the selected strategy reflecting the appropriate mix of financing sources for FY2016/17 in the Annual Borrowing Plan (ABP);
- Other initiatives to minimize inherent risks in the Government's debt portfolio; and
- Planned activities to facilitate continued development of the domestic market.

The document is divided into eight (8) sections. **Section I** covers the Introduction. **Section II** gives a review of the current composition of the debt portfolio while **Section III** summarizes recent debt developments during the review period. **Section IV** assesses the financial cost and risk to the portfolio. **Section V** speaks to the macroeconomic environment. **Section VI** describes the methodology for selection of the medium-term debt management strategy for FY2016/17-FY2018/19. **Section VII** itemizes the Annual Borrowing Plan (ABP) and **Section VIII** provides an update on domestic market development.

The scope of the analysis covers the Government's debt—domestic and external—at points referencing both the Government of Jamaica (GOJ) and Extended Fund Facility (EFF) arrangement definitions. Total debt as defined by GOJ includes Central Government, Bank of Jamaica and external guarantees while the EFF definition of debt consists of Central Government, Bank of Jamaica, net PetroCaribe Development Fund, external and domestic guarantees. The stock of debt used in the MTDS analytical toolkit includes Central Government debt and guarantees currently serviced by the GOJ.

The **MTDS FY2016/17-FY2018/19** was prepared by the Debt Management Branch (**DMB**) of the Economic Management Division of the Ministry of Finance and the Public Service. The DMB is responsible for the GOJ's debt management operations, including debt acquisition, recording and reporting, directing debt repayments, as well as formulating and implementing the debt strategy and ABP.

SECTION II: PROFILE OF THE DEBT STOCK

At end-March 2016, the total outstanding stock of debt was $2,068.7 billion compared to $2,041.7 billion at end-March 2015. This represented an increase of $27.0 billion or 1.3% when compared to end-March 2015. The external debt stock stood at $1,252.8 billion, an increase of $266.0 billion over the outturn of $986.8 billion at end-March 2015 and represented 60.6% of the total debt. The domestic debt stock decreased by $239.0 billion from $1,054.9 billion to $815.9 billion and represented 39.4% of total debt over the review period. The stock of Central Government debt, classified by creditor category, as at end-March 2015 and end-March 2016, is shown in **Table 1** below.

Table 1: Total debt stock by creditors (in millions of Jamaica Dollars)

	End-March 2015		End-March 2016		Change	
	J$ Billion	% total debt	J$ Billion	% total debt	J$ Billion	%
TOTAL DEBT	2041.7	100.0	2068.7	100.0	27. 0	1.3
Total Domestic Debt	1054.9	51.7	815.9	39.4	-239.0	-22.7
Marketable securities	870.0	42.6	813.2	39.3	-56.8	-6.5
Bonds	866.0	42.4	809.2	39.1	-56.8	-6.6
Treasury Bills	4.0	0.2	4.0	0.2	0.0	0.0
Loans	184.9	9.1	2.7	0.1	-182.2	-98.5
Total External Debt	986.8	48.3	1252.8	60.6	266.0	27.0
Marketable securities	472.6	23.1	694.1	33.7	221.5	46.9
Bonds	472.6	23.1	694.1	33.7	221.5	46.9
Loans	514.2	25.2	558.7	26.9	44.5	8.6
Bilateral	93.2	4.6	91.7	4.4	-1.5	-1.6
Multilateral	382.2	18.7	430.9	20.9	48.7	12.7
IMF	67.1	3.3	80.8	3.9	13.7	20.4
IDB	163.3	8.0	191.8	9.3	28.5	17.5
IBRD	94.8	4.6	99.8	4.8	5.0	5.3
Other	57.0	2.8	58.5	2.9	1.5	2.6
Private Creditors	38.8	1.9	36.1	1.6	-2.7	-7.0

Source: Ministry of Finance and the Public Service

SECTION III: RECENT DEBT DEVELOPMENTS

Debt-to-GDP as defined under the EFF declined by 12.8 percentage points from 137.3% at end-FY2014/15 to 124.5% at end-FY2015/16 and was mainly due to the buyback of Petrocaribe Energy Cooperation Agreement debt (See **Box 1**). Debt-to-GDP as defined by the GOJ declined by 3.8 percentage points from 130.6% to 126.8% over the same period (see **Table 2**). It should be noted that it is the Jamaica definition of the Government's debt that is analysed in detail below and that some references are only to the debt of the Central Government.

Over the last 10 years, domestic debt accounted for the greater proportion of total debt. However, with the limited activity in the domestic market over the last three years and favourable lending terms from external sources, the government satisfied the majority of the financing requirements through external financing. This resulted in a shift in FY2015/16 in the portfolio composition to majority external debt (60.6%). Domestic debt-to-GDP was 50.0% and external debt-to-GDP, 76.8% at end-March 2016.

Table 2: Debt and interest as percent of GDP

							Proj.	Proj.	Proj.
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Debt/GDP*	142.7%	140.3%	145.3%	140.4%	137.3%	124.5%	124.5%	119.4%	113.9%
Debt/GDP**	134.0%	132.0%	135.6%	133.0%	130.5%	126.8%	126.2%	119.7%	113.0%
Domestic Debt/GDP	69.1%	72.4%	75.4%	70.0%	67.5%	50.0%	46.7%	42.9%	39.1%
External Debt/GDP	64.9%	59.4%	60.2%	63.0%	63.1%	76.8%	74.6%	71.7%	67.8%
Interest/GDP	10.9%	9.6%	9.5%	7.5%	8.3%	7.7%	7.8%	6.8%	5.8%

Source: Ministry of Finance and the Public Service

*** EFF-defined Total debt includes Central Government, Bank of Jamaica, net PetroCaribe debt, and external and domestic guaranteed debt**

**** GOJ-defined Total debt includes Central Government, Bank of Jamaica and external guaranteed debt**

During the review period, the Government did not issue any new guarantees on behalf of public bodies nor assume any guaranteed loans. The stock of Government guaranteed debt as a percentage of GDP fell by 1.1 percentage points, from 11.5% to 10.4%, due to net repayments.

Box 1: Petrocaribe Liability Management Transaction

During the second quarter of FY2015/16, Jamaica, through the Central Government purchased US$3.25 billion of Jamaica's Petrocaribe Energy Cooperation debt from the Government of Venezuela, acting through PDVSA Petroleo, S.A. (PPSA). The debt purchased represented the debt outstanding at December 2014 less any payments made between January and July 2015. The outstanding debt was purchased for US$1.5 billion. The purchase was financed from a US2.0 billion issue in the international capital market for which Jamaica received the 2015 International Financing Review Latin American Bond of the Year Award.

Through the Petroleum Act, the PetroCaribe Development Fund (PCDF) was established to inter alia, settle debt service obligations of Jamaica for the purchase of oil and petroleum products under the Petrocaribe Energy Cooperation Agreement. With the Central Government purchase of the Petrocaribe Energy Cooperation debt outstanding at December 2014, the PCDF therefore became indebted to the Central Government.

The GOJ repurchase of the Petrocaribe Energy Cooperation debt facilitated the set off of debt owed by the Central Government to the PCDF against the debt now owed by the PCDF to the Central Government. The net effect of the repurchase of the Petrocaribe Energy Cooperation debt and the set off of Central Government debt owed to PCDF was a 10 percentage point reduction in the debt-to-GDP as defined under the EFF. Further, savings will accrue to the Government over the long-term, given that debt service on the US$1.5 billion that financed the transaction will be lower by over US$300.0 million across the life of the bonds than that which would have obtained under the Petrocaribe Energy Cooperation Agreement.

The overall transaction has therefore enhanced the country's ability to achieve by March 2020 the 96.0% debt-to-GDP target agreed under the EFF.

SECTION IV: COST AND RISK ANALYSIS

Risk management requires appropriate forecasting and evaluation of the financial risks to the debt portfolio, along with formulating strategies to mitigate the adverse effects of shocks and to avoid and/or minimize potential losses. The Government, taking into account the macroeconomic environment, makes proactive decisions to achieve the most effective portfolio structure based on cost/risk trade-off. The **FY2015/16-FY2017/18 MTDS** was structured to accomplish this objective through calculated planning and execution of debt management activities in both the domestic and external capital markets.

During FY2015/16, the Government deviated from the planned strategy in order to position itself to realize greater cost/risk benefits over the medium-to-long term. This deviation had a significant impact on the structure of the total debt portfolio, but more importantly it improved the country's progress along the path toward achievement of the FY2019/20 debt-to-GDP target of 96.0%.

Table 3 below provides a synopsis of the cost and level of risk in the total, domestic and external debt portfolios, at end-March 2015 and end-March 2016. The targets for end-March 2016 are also included. The sections that follow provide a review of the impact of the debt management activities undertaken during FY2015/16.

Box 2: Risk Definitions

Risk is the uncertainty related to an adverse change in the debt portfolio due to an unexpected outcome.

Foreign Currency Risk

- Foreign currency risk is the probability that the debt stock and the associated debt service costs will increase as a result of volatility in exchange rates.

Interest Rate Risk

- Interest rate risk is the probability of increases in debt service costs arising from the reset of interest rates on variable rate debt and refinancing of fixed rate debt maturing in one year or less.

Inflation Risk

- The probability that the country will encounter higher debt service cost due to increases in the Consumer Price Index (CPI).

Refinancing Risk

- The probability that the Government will not be able to repay or refinance maturing liabilities is termed refinancing risk.

Table 3: Debt indicator outcomes for end-FY2014/15 and end-March 2016, and targets for end-FY2015/16

	OUTCOMES			TARGETS End Mar-2016 ***	
	End Mar-2015	End Mar-2016	Change	Min	Max
Foreign Currency Risk					
Foreign currency debt/Total debt (%)	60.9	64.0	3.1	61.0	63.0
Foreign currency domestic debt/Total domestic debt (%)	24.3	8.6	-15.7	24.0	26.0
Interest Rate Risk					
Total Debt					
Fixed Rate	66.3	65.4	-0.9	67.0	70.0
Variable Rate	33.7	34.6	0.9	30.0	33.0
Domestic Debt					
Fixed Rate*	68.0	58.7	-9.3	68.0	70.0
Inflation linked-debt	4.0**	5.4	1.4		2.1
Variable Rate	32.0	41.3	9.3	30.0	33.0
External Debt					
Fixed Rate	64.3	69.8	5.5	61.0	64.0
Variable Rate	35.7	30.2	-5.5	35.0	39.0
Refinancing Risk					
Average Maturity (years)	10.6	9.9	-0.7	9.0	-
% Maturing in one year					8.0
Domestic	6.9	1.3	-5.6	-	-
External	8.4	3.0	-5.4	-	-
Contingent Loan Guarantee Risk					
Guarantee loans (% of GDP)	11.5	10.4	-1.1	-	-
Cost Structure					
Average Cost (total)	5.8	6.1	0.3	-	-
Domestic	6.7	7.4	0.7	-	-
External	5.0	5.3	0.3	-	-

Source: Ministry of Finance and the Public Service

***Includes inflation-linked debt**

****The figure was revised to reflect inflation-linked debt as a percentage of domestic debt**
*****These targets were established in MTDS FY2014/15-FY2017/18**

Total debt as defined by the GOJ includes Bank of Jamaica, Central Government and external guaranteed debt.

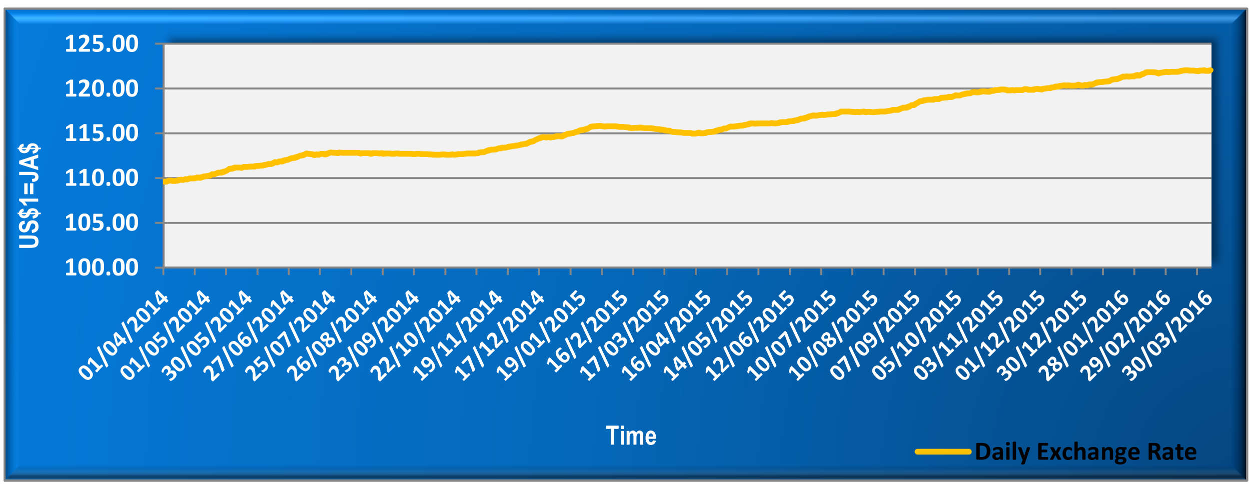
4.1 FOREIGN CURRENCY RISK

The measurement and management of the foreign currency risk exposure embedded in Jamaica's public debt structure is critical, given that the greater proportion of the public debt is now denominated in foreign currency.

The exposure to foreign currency risk increased by 3.1 percentage points during FY2015/16, indicated by the change in the share of the foreign currency-denominated debt, from 60.9% to 64.0%, as in **Table 3** above. The increase is attributed to net inflows denominated in United States dollars and revaluation of existing foreign currency debt based on currency movements.

For FY2015/16, the Jamaica dollar depreciated by 6.1% relative to the US dollar, moving from \$115.04=US\$1.00 to \$122.04=US\$1.00, and has contributed approximately \$75.9 billion to the debt stock. For the corresponding period in FY2014/15, the rate of depreciation was 5.1% and foreign exchange movements added approximately \$59.1 billion to the debt stock. **Figure 1** below shows a graphical representation of the movements of the Jamaica dollar vis-à-vis the US dollar.

Figure 1: Exchange rate movements of the Jamaica dollar vis-à-vis the US dollar April 1, 2014 to March 30, 2016



Source: Bank of Jamaica

During FY2015/16, the share of foreign currency debt relative to total debt increased as the nominal value of foreign currency-denominated debt increased. On the other hand, as maturing local currency benchmark instruments were repaid the nominal value of the portfolio denominated in local currency debt was reduced. However, the reduction was partially offset by funds raised during the re-entry of the Government into the domestic bond market in February 2016. The net effect was a reduction in local currency-denominated debt by 6.7% from \$798.7 billion to \$745.5 billion.

Over the short- to medium-term, the foreign currency-denominated debt will continue to account for the majority of total debt. However, the Government plans to gradually increase local currency financing from the domestic market, consequent on improvements in the macroeconomic environment and in investor confidence.

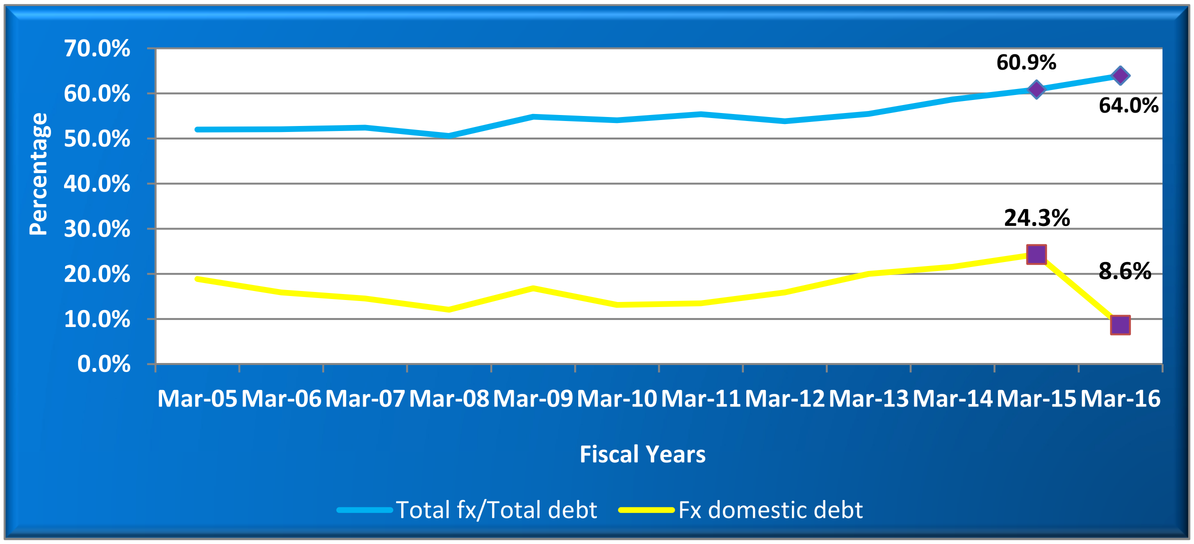
During FY2015/16, foreign currency risk was significantly reduced in the domestic portfolio (see **Figure 2**), and, as a result, exchange rate movements had a lower impact on the domestic portfolio. At end-March 2016, 8.6% of the domestic debt was denominated in foreign currency, which is 15.7 percentage points less than the 24.3% recorded at end-March 2015. This reduction is due mainly to the Government extinguishing 74.2% of the debt owed to the PCDF during the second quarter of the year under the Petrocaribe transaction.[1]

While foreign currency debt in the domestic portfolio was substantially reduced as a result of the set off of PCDF debt arising from the buyback transaction, the foreign currency stock of the total portfolio was not similarly affected, due to the US$2.0 billion raised in the ICM to finance the buyback transaction and provide budgetary support, which resulted in a nominal increase in overall foreign currency risk. The foreign currency risk in the domestic portfolio was below the targeted maximum 26.0% for end-FY2015/16.

The outturn for foreign currency-denominated debt for FY2015/16 was 64.0%.The strategic target of 65.0% of foreign currency debt relative to total debt is being pursued for end-FY2016/17 through to end-FY2018/19, with the majority continuing to be denominated in US dollars. This is premised on the fact that the Net International Reserves (NIR) at end-March 2016 amounted to US$2,415.5 million and represented 23.3 weeks' of imports. The large majority of export receipts are denominated in US dollars, providing a natural hedge against foreign currency risk.

[1] All loans borrowed from the PetroCaribe Development Fund are denominated in US dollars.

Figure 2: Foreign currency debt relative to total debt and foreign currency domestic debt relative to domestic debt

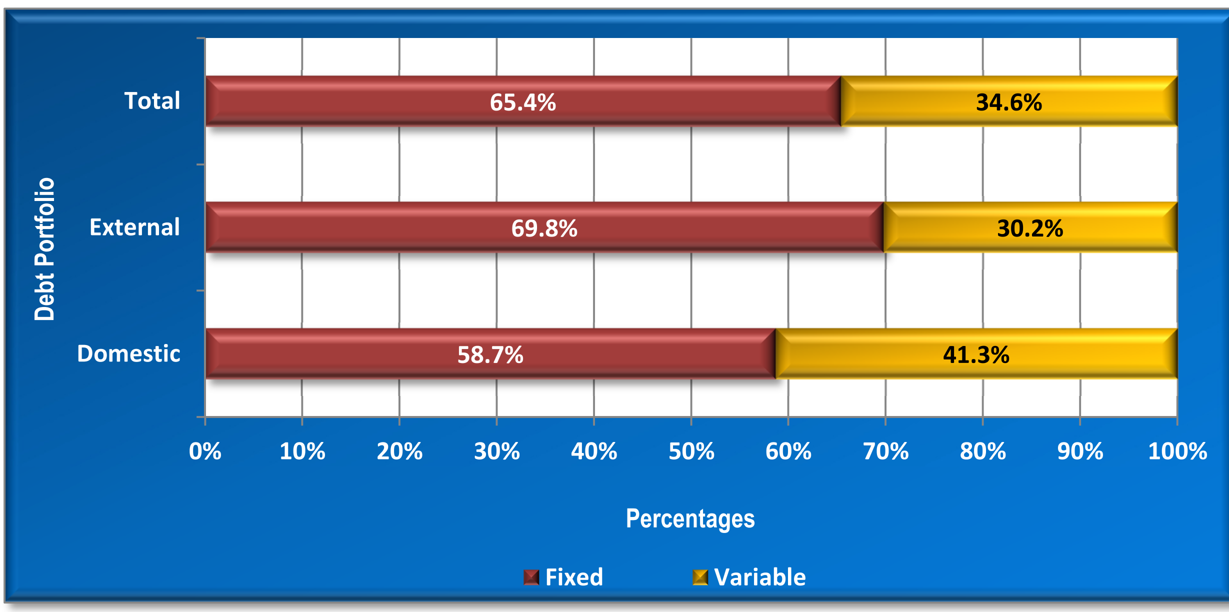


Source: Ministry of Finance and the Public Service

4.2 *INTEREST RATE RISK*

Based on the interest rate structure of the debt portfolio and projections for domestic interest rates, the level of exposure of the portfolio to interest rate risk will continue to be manageable. As seen in **Table 3**, fixed-interest rate debt represented 65.4% of the total debt at end-March 2016. This proportion is 0.9 percentage point less than the 66.3% at end-March 2015. During FY2015/16, the majority of new debt in the total portfolio was acquired on a fixed-rate basis, consistent with the Government's debt management strategy. Additionally, with large outflows of fixed-rate debt in the PetroCaribe transaction and timely repayment of maturing fixed-rate debt, combined with disbursements of variable-rate loans, the overall effect was a marginal reduction in the proportion of fixed-rate debt. As a result, the level of interest rate risk increased marginally (see **Figure 3**).

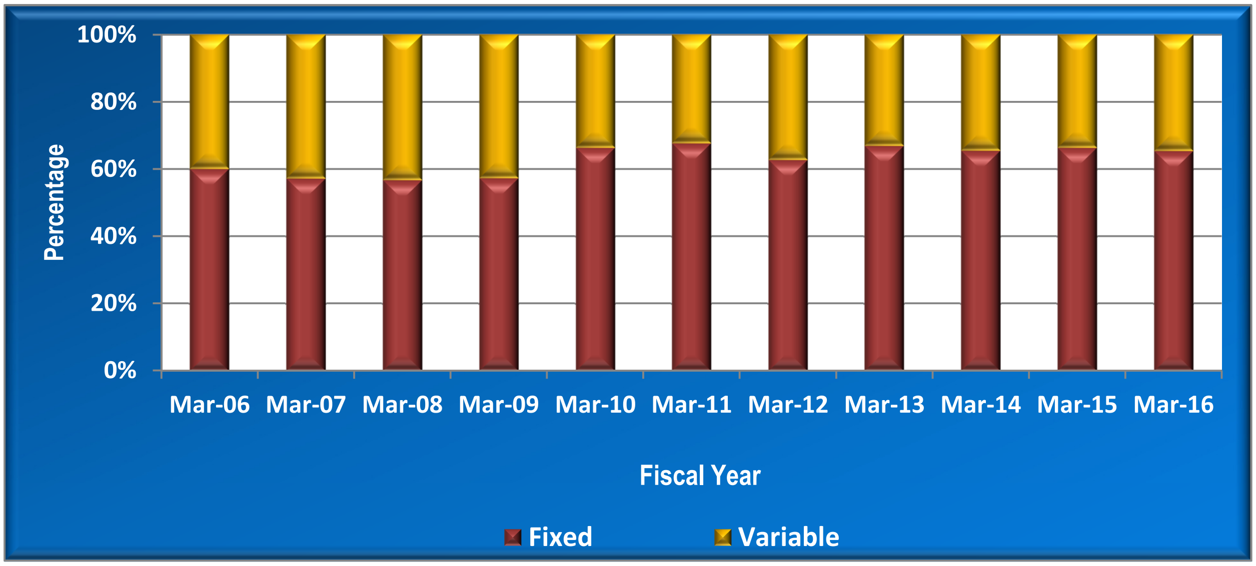
Figure 3: Interest rate composition of total debt at end-FY2015/16 (in millions of Jamaica dollars)



Source: Ministry of Finance and the Public Service

The securities and loans that were redeemed under the set off operation with PCDF as well as the repayment of benchmark notes resulted in a reduction in the share of fixed-rate debt in the domestic debt portfolio, while the issuance of fixed-rate external debt resulted in an increase in the share of fixed-rate debt in the external portfolio. At end-March 2016, fixed-rate debt accounted for 58.7% and 69.8% of domestic and external debt, respectively (see **Figure 4**). Compared to end-March 2015, this represents a decrease of 9.3 percentage points in the share of domestic debt and an increase of 5.5 percentage points in the share of external debt (see **Table 3**).

Figure 4: Interest rate composition of the total debt from March 2006 – March 2016



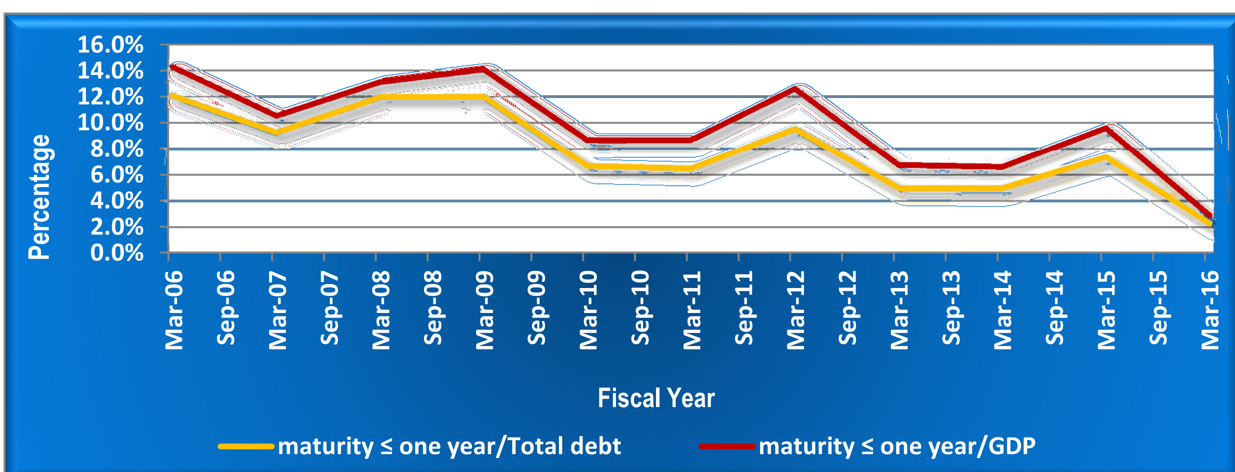
Source: Ministry of Finance and the Public Service

Market conditions permitting, the Government plans to issue more fixed-rate debt in the domestic bond market to achieve the desired portfolio structure of a 70:30 proportion of fixed and variable rate debt by end-FY2018/19.

The majority of external variable-rate instruments are repriced at half-yearly intervals. The remaining external variable-rate instruments and all domestic variable-rate instruments are repriced on a quarterly basis.

At end-March 2016, debt maturing in one-year or less was 2.3% of total debt, or 2.9% of GDP, and represented 1.3% and 3.0% of the domestic and external debt portfolios, respectively (see **Figure 5**), hereby achieving the target of 8.0%.

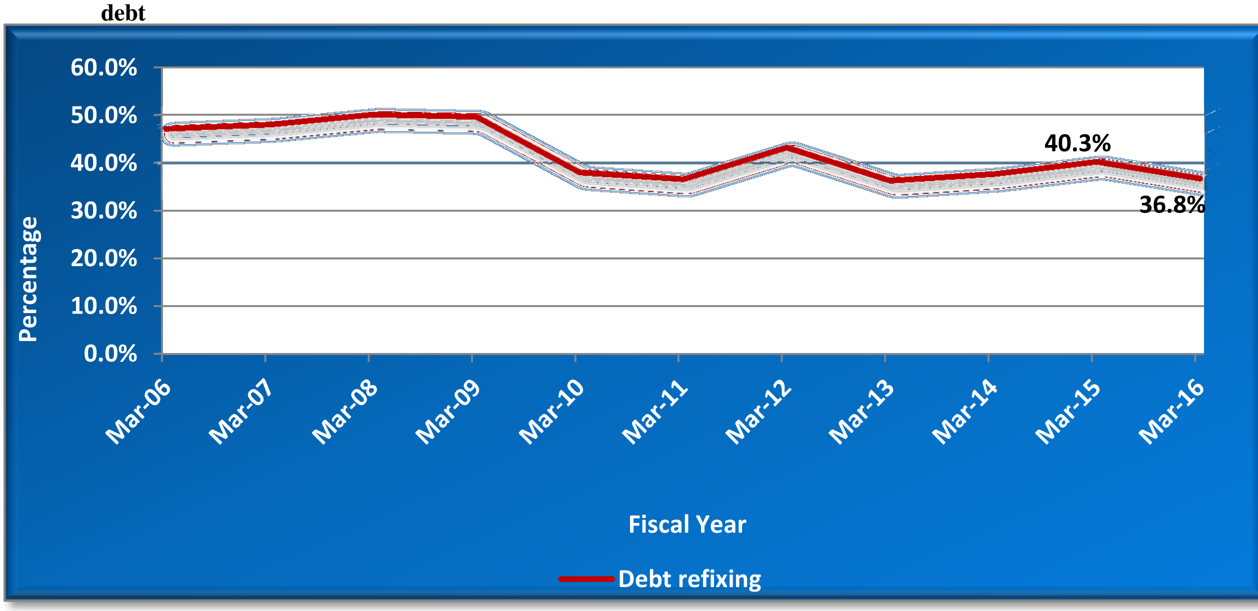
Figure 5: Debt maturing in one year as a percentage of GDP and total debt



Source: Ministry of Finance and the Public Service

Figure 6 shows that 36.8% of the debt portfolio is exposed to interest rate movements. This is represented by the proportion of total debt maturing in one year or less, plus the share of variable-rate debt maturing in greater than one year.

Figure 6: Debt maturing in one year and variable rate debt with maturities greater than one year as a percentage of total debt



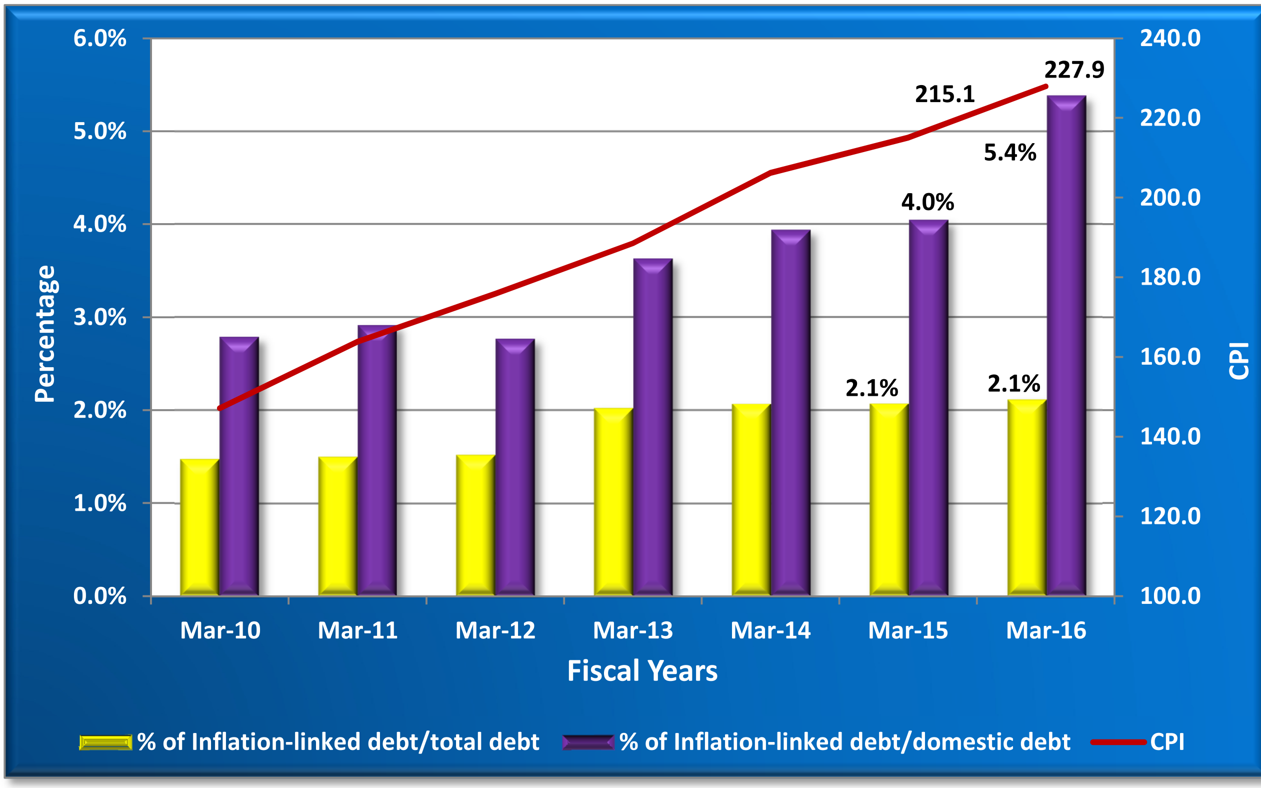
Source: Ministry of Finance and the Public Service

Total interest payment was 7.7% of GDP for FY2015/16. Based on the current composition of the portfolio, a 100-basis point rise in domestic interest rates would increase annual domestic interest costs by approximately $3.4 billion or 0.4% of GDP.

4.3 INFLATION RISK

The nominal value of inflation-indexed debt adjusts, based on the official daily values of the Consumer Price Index (CPI). Due to changes in daily interpolated CPI values, there was a marginal increase in the nominal value of inflation-linked debt during FY2015/16. The share of inflation-linked debt relative to total debt remained at 2.1% at end-March 2016 as shown in **Figure 7**. However, due to a significant reduction in the size of the domestic debt stock, inflation-linked debt as a percentage of domestic debt increased by 1.4 percentage points from 4.0% at end-March 2015 to 5.4% at end-March 2016.

Figure 7: Proportion of inflation-linked debt relative to total debt at end-March 2010 - end-March 2016 and the average CPI



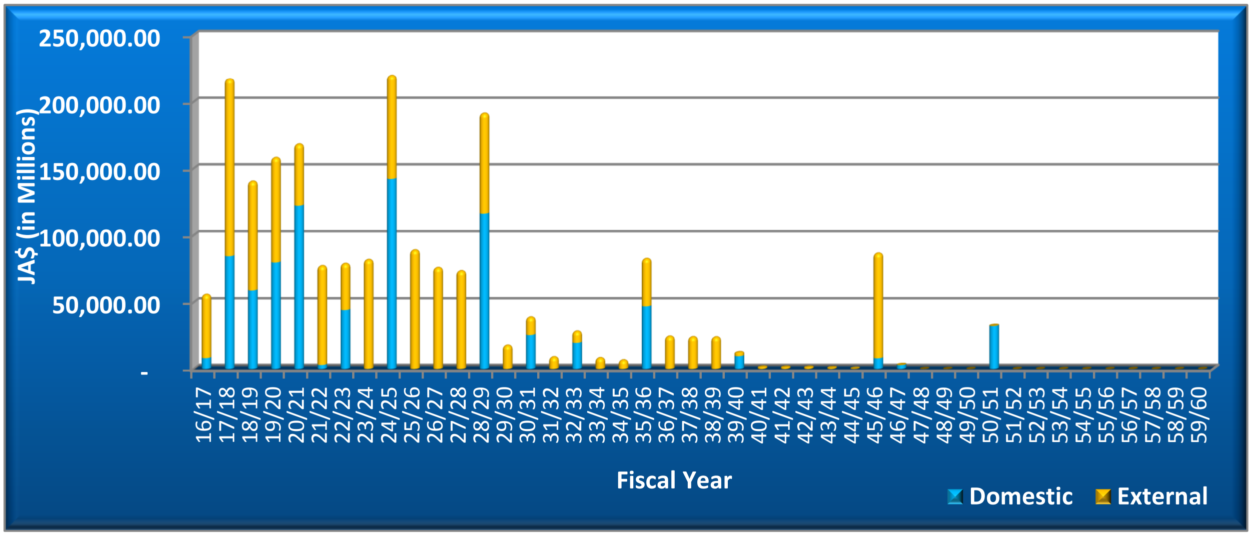
Source: Ministry of Finance and the Public Service

4.4 REFINANCING RISK

The objective of managing refinancing risk is to avoid difficulties in servicing the debt including reducing roll over risk. Debt transactions during the year resulted in a marginal reduction in the Average Time to Maturity (ATM).

In February 2016, a $60.4 billion benchmark bond matured. Repayment of the bond was financed from funds raised earlier in the year as the Government sought to eliminate any refinancing risk with respect to the maturity. Refinancing risk to the portfolio has been further reduced as the GOJ took advantage of the liquidity generated by the maturity to pre-fund some of the FY2016/17 maturities by issuing a limited amount of $15.0 billion in new benchmark notes in the domestic market, with short, medium and long tenors. **Figure 8** shows the current maturity profile of the total debt.

Figure 8: Maturity profile of the total debt (in J$ millions) as at end-March 2016

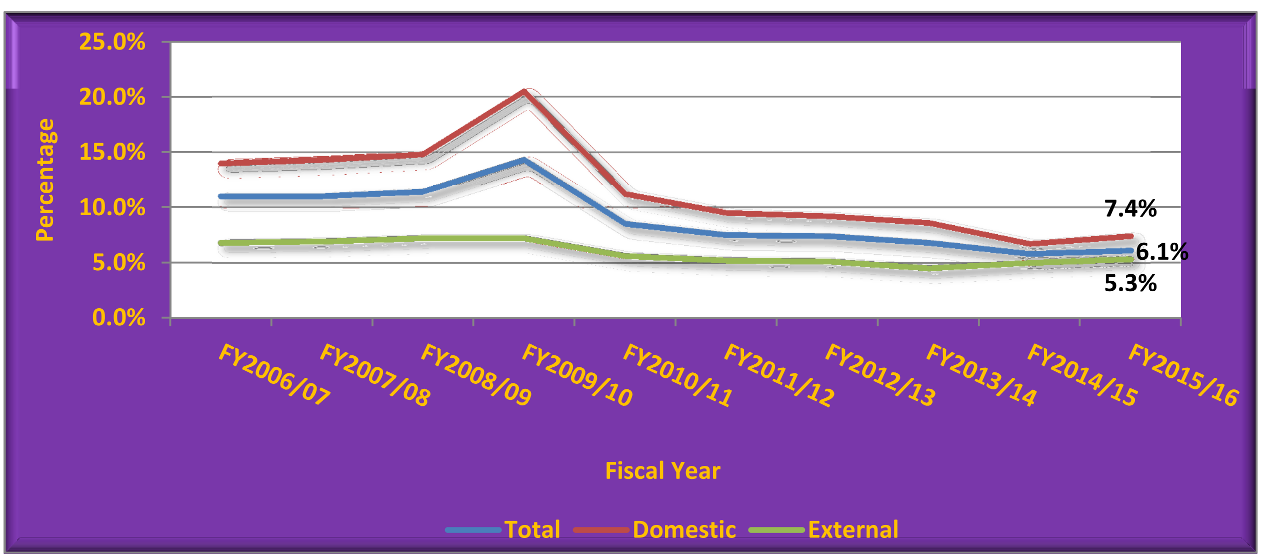


Source: Ministry of Finance and the Public Service

4.5 COST

The average interest rate of the total outstanding debt increased by 0.3 percentage point from 5.8% recorded at end-March 2015 to 6.1% at end-March 2016. At end-March 2015, the average cost of domestic loans was 6.7% and increased by 0.7 percentage point to 7.4% at end-March 2016, while the average cost of external loans increased marginally by 0.3 percentage point from 5.0% to 5.3%.

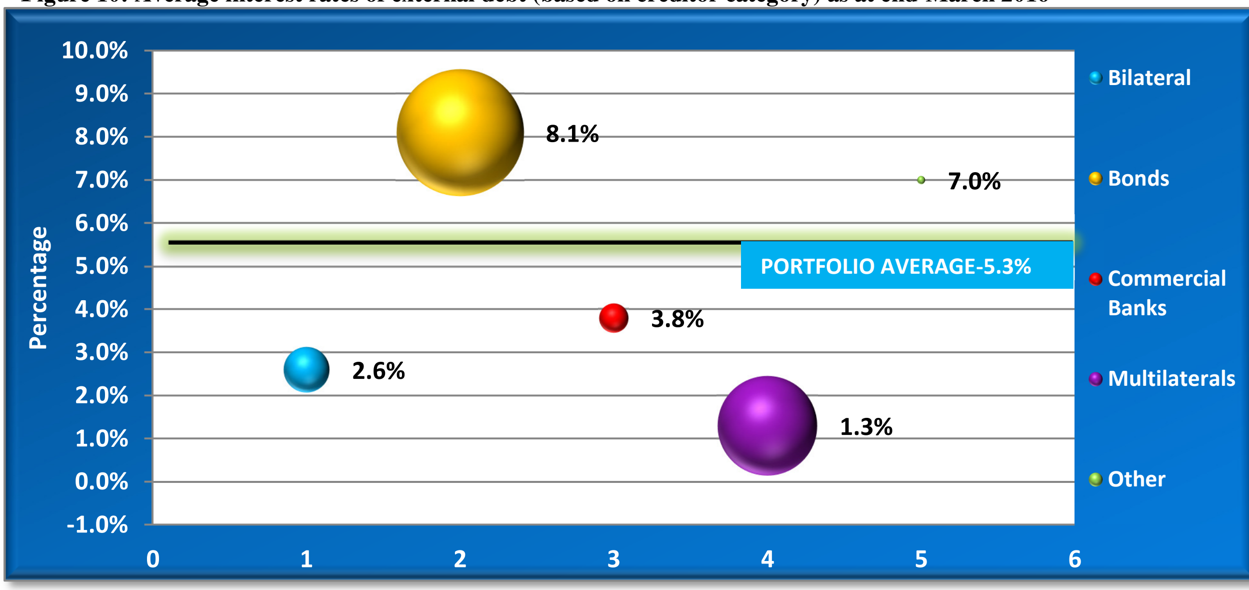
Figure 9: Average interest cost of domestic, external and total debt for FY2006/07 to end-March 2016



Source: Ministry of Finance and the Public Service

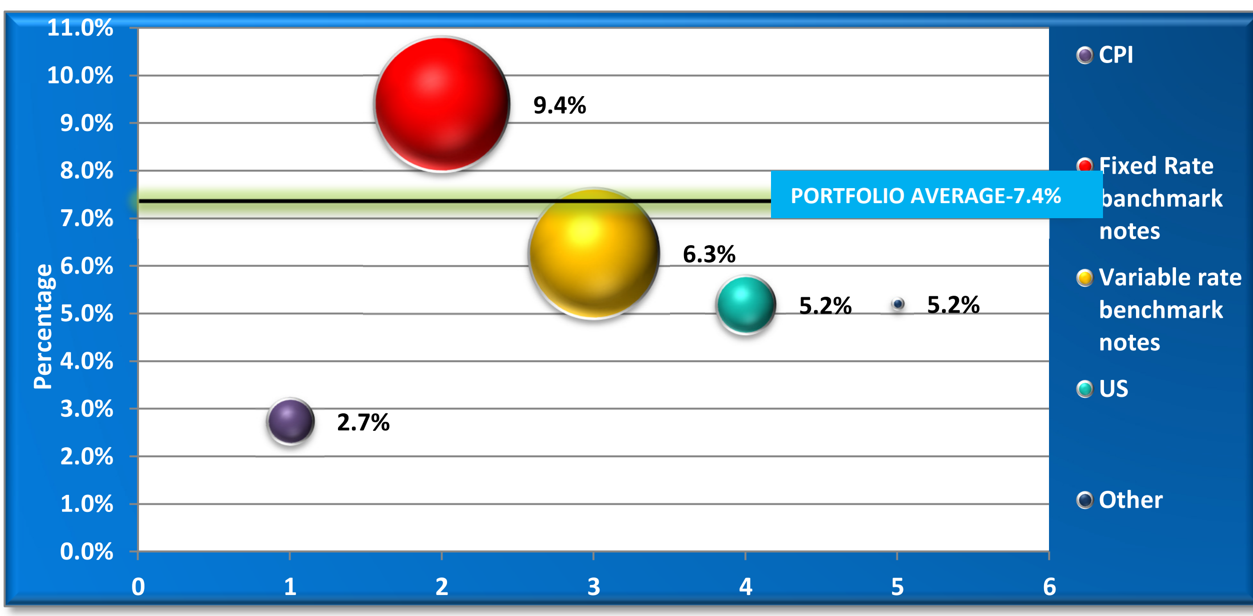
Figures 10 and **11** show a breakdown of the instruments in the external and domestic portfolios based on creditor and instrument type, respectively. The interest rates associated with loans in the external portfolio ranged from 0.0% to 11.625%, while the rates associated with loans in the domestic portfolio ranged from 1.0% to 16.0%.

Figure 10: Average interest rates of external debt (based on creditor category) as at end-March 2016



Source: Ministry of Finance and the Public Service
NB: The relative proportion of each category is represented by the size of the associated circle

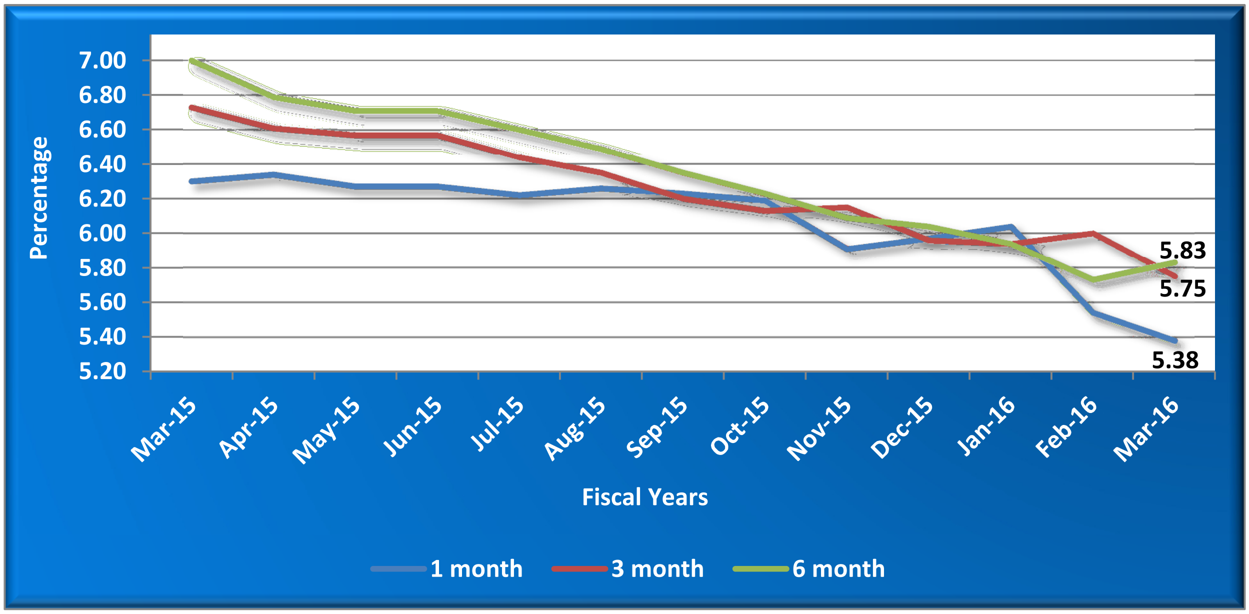
Figure 11: Average interest rates of Domestic debt based on Instrument type as at end-March 2016



Source: Ministry of Finance and the Public Service
NB: The relative proportion of each category is represented by the size of the associated circle

The 3-month weighted average Treasury Bill yield, used to re-price all domestic variable-rate instruments, decreased by 0.98 basis points (bps) from 6.73% p.a. at end-March 2015 to 5.75% p.a. at end-March 2016. This movement translates into cheaper cost associated with variable rate instruments in the domestic portfolio.

Figure 12: Treasury Bill rates from March 2015 to March 2016



Source: Ministry of Finance and the Public Service

SECTION V: MACROECONOMIC OVERVIEW

5.1 ECONOMIC OVERVIEW

Jamaica remains on track to achieve the programmed medium-term macroeconomic and financial targets. During FY2015/16, the Government continued the implementation of policy reforms that supported the recovery of the economy, as outlined in **Table 4** which includes the macroeconomic indicators. These indicators are reflected in the Estimates of Revenue and Expenditure and by extension the debt trajectory.

The GOJ has successfully completed ten (10) quarterly reviews under the Extended Fund Facility arrangement with the International Monetary Fund. Preliminary indications are that all targets for the 11th review in respect of the period ending December 2015 have been achieved. In addition, the debt-to-GDP is on a firm downward trajectory and the expectation is that the Government will meet the target of 96.0% by March 2020.[2] With the improving macroeconomic environment and debt trajectory, focus is on growth-enhancing projects in the real economy. To this end, the IMF has agreed to the lowering of the primary surplus target of 7.5% to 7.25% for FY2015/16; and to 7.0% for FY2016/17. This additional fiscal space is to be utilized for growth enhancing capital programmes.

Jamaica's economy is estimated to grow by 0.8% for fiscal year FY2015/16, following growth of 0.2% in FY2014/15. Growth was stimulated by a rebounding manufacturing industry, expansion in the agriculture, forestry and fishing category, and the impact of falling oil prices. Growth was also bolstered by improvements in global growth rates, particularly in the United States of America, which is a key source of remittances and tourist arrivals, and the largest importer of goods and services produced by Jamaica. Tangible benefits were also seen in the economy from earlier implementation of tightened fiscal and monetary policies, which enabled increased credit by financial institutions to private investors for use in the productive sectors. Positive growth is expected to continue over the medium-term.

In recent times, inflation has decreased more than expected due to the rapid decline in oil prices. The reduction in inflation has been supported by prudent and complementary monetary and fiscal policies. Inflation fell from 8.3% at end FY2013/14 to 4.0% at the end of FY2014/15, the lowest in 48 years. For FY2015/16, inflation fell further to 3.5%. This reflects a decrease of 0.5 percentage points over the corresponding period of last year. The increase was driven mainly by changes in food prices, particularly meats and vegetables and starchy foods, caused by the

[2] It is expected that under the Fiscal Responsibility Framework and the associated fiscal rules, debt-to-GDP will be 96.0% by end FY2019/20 and 60.0% or less by FY2025/26

severe drought conditions which led to a shortage of local produce. For the medium-term, it is anticipated that inflation will be in the range of 5.0%-6.0%. The narrowing of the inflation differential between Jamaica and its trading partners has contributed to an improvement in Jamaica's competitiveness.

The Balance of Payments current account and the NIR have shown considerable improvements over the review period. The continued reduction in global oil prices and an increase in exports are the main drivers in the improvements in the current account balance. Lower oil prices contributed to the decrease in the current account deficit, as oil is a major component of the country's imports. The current account deficit for the period April to December 2015 was 2.6% of GDP, compared to 7.1% for the similar period in the previous year, and this outturn will represent the fourth consecutive year of improvement. The NIR stood at US$2,415.5 million at end-March 2016, an increase of US$122.5 million over the US$2,293.0 million at end-March 2015.

As the productive sector expands, the unemployment rate has fallen. This trend is expected to continue throughout the remainder of the fiscal year. The average unemployment rate was 13.7% in 2014 and fell to 13.5% at end-October 2015.

Table 4: Macroeconomic Indicators

	FISCAL YEARS					
	2014/15 Actual	2015/16 Est.	2016/17 Proj.	2017/18 Proj.	2018/19 Proj.	2019/20 Proj.
Macroeconomic variables:						
Nominal GDP (J$ billion)	1,563.9	1,632.2	1,733.0	1,875.1	2,029.6	2,188.4
Nominal GDP growth rate (%)	6.9	4.4	6.2	8.2	8.2	7.8
Real GDP growth rate (%)	0.2	0.8	1.8	2.7	2.7	2.6
Inflation: Annual Pt to Pt (%)	4.0	3.8	5.5	5.5	5.0	5.0
Interest rates:						
30-day repo rate (eop)	5.75	5.25	-	-	-	-
180-day Treasury Bill (avg)	7.84	6.28	-	-	-	-
Avg. exchange rate (J$=US$1:00)	113.07	118.7	-	-	-	-
Oil Prices (WTI) (avg. US$/barrel)	81.2	44.5	36.9	42.7	49.0	51.5

Source: Bank of Jamaica

5.2 RISK FACTORS TO THE DEBT STRATEGY

Currently, the debt portfolio is more sensitive to movements in foreign exchange and interest rates than inflation. Foreign currency and interest rate exposures of the debt are at 64.0% and 34.6% respectively. **Table 5** shows the impact of changes in interest rates and foreign exchange rates on the debt stock. Based on the structure of the portfolio at end-March 2016, a 1.0% depreciation of the Jamaica dollar vis-à-vis the US dollar would add $13.2 billion to the total debt stock, and a 1.0% rise in both domestic and external interest rates would increase debt service by $7.2 billion.

Table 5: Impact of increase in interest and exchange rates on interest payments and the debt stock

Static Sensitivity Analysis of Interest Payments and Debt Stock using Stock of debt at end-March 2016 ($ millions)					
Depreciation of the Domestic Currency		**Baseline**	**1.0%**	**5.0%**	**10.0%**
Debt Stock		-	13,232.31	66,161.57	132,323.14
Debt Stock change		-	0.6%	3.2%	6.4%
As % of GDP		-	0.8%	4.1%	8.1%
Interest rate increase			1.0%	2.0%	8.0%
Interest payments:	Domestic	-	3,370.54	6,741.08	26,964.32
	External	-	3,783.74	7,567.49	30,269.95
	Total	-	7,154.28	14,308.57	57,234.27
As % of GDP			0.4%	0.9%	3.5%
Dynamic Sensitivity Analysis of Interest Payments and Debt Stock					
		Est.	**Proj.**	**Proj.**	**Proj.**
Fiscal Year		**2015/16**	**2016/17**	**2017/18**	**2018/19**
Domestic Interest (% of GDP)					
Baseline		4.4%	3.6%	3.2%	2.7%
Interest rate increase:	1.0%	4.6%	3.9%	3.4%	2.9%
	2.0%	4.8%	4.0%	3.5%	3.0%
	8.0%	6.0%	5.2%	4.6%	4.0%
External Interest (% of GDP)					
Baseline		3.3%	4.2%	3.5%	3.1%
Interest rate increase:	1.00%	3.6%	4.4%	3.7%	3.2%
	2.00%	3.8%	4.6%	3.9%	3.4%
Total Interest (% of GDP)					
Baseline		7.7%	7.8%	6.7%	5.8%
External: 2.0%	Domestic: 8.0%	9.8%	9.8%	8.5%	7.4%
Debt Stock (% of GDP)					
Baseline		126.8	126.2	119.7	113.0

Source: Ministry of Finance and the Public Service

The following are potential risks to the macroeconomic framework:

- Revenue growth that is weaker than projected;
- Exogenous shocks which could cause fiscal slippage;
- Increases in international commodity prices that could drive the domestic inflation rate upwards;
- Rebounding global oil prices which could adversely affect the cost of energy;
- Sustained reduction in the NIR;
- A deterioration in the international trade balance;
- Extended severe drought conditions and poor farming practices;
- Higher than anticipated depreciation of the local currency vis-à-vis the major international currencies;
- Increases in fiscal expenditure; and
- Increases in unemployment

SECTION VI: MODELLING OF MEDIUM-TERM DEBT STRATEGY - FY2016/17-FY2018/19

The MTDS is aimed at determining the most appropriate borrowing strategy for the Government in terms of cost/risk tradeoff. In particular, the strategy is expected to address the risks described in Section five (i.e. high exposure to foreign exchange risk and refinancing risk) in consideration of the existing and realistically foreseeable borrowing capacities of the Government.

The scope of the analysis includes Central Government debt and guarantees currently serviced by the Government. Using the analytical toolkit, jointly developed by the World Bank and the IMF, the cost/risk implications of four different strategies were assessed using various scenarios over a three-year horizon (FY2016/17 to FY2018/19).

6.1 MACROECONOMIC AND MARKET BASELINE AND SCENARIOS

Government's assumptions in respect of the macroeconomic environment include an 8.0% annual growth rate for nominal GDP and a primary surplus equivalent to 7.0% of GDP each year. In relation to market data, debt instruments are priced at existing yields at end-December 2015.

The analysis of risks to the baseline is determined by applying the following shocks[3]:

1) Severe devaluation of the JMD vis-à-vis the USD (30.0% in FY2016/17 with the baseline depreciation applied to years two and three);

2) Extreme shock on the interest rates: parallel shift of both external and domestic yield curves by an increase of 400 bps and 800 bps, respectively;

3) Combination shock: JMD devaluation by 15.0% accompanied by a moderate shock in interest rates (an increase of 200 bps in the external market and 400 bps in the domestic market).

6.2 STRATEGIES

The four strategies are based on feasible future financing options for the GOJ and, as such, share the following borrowing patterns:

- Financing needs in FY 2016/17 do not require bond issuance in the international market;

[3] The three risk scenarios are considered as equally probable given the historic series of the variables involved.

- The existing stock of Treasury bills is rolled over throughout the period ($5.2 billion); and
- The disbursement of bilateral and multilateral loans is assumed constant throughout the period

In addition to these common features, the four strategies are characterized by the following:

1) S1- the domestic debt in the amount of approximately $165.0 billion falling due between FY2017/18 and FY2018/19 is entirely refinanced in the domestic market, through the issuance of 2- ,5-, 10- and 30-year JMD fixed-rate bonds in equal proportion. The remaining borrowing needs are covered with ICM issuances: 15-year bond amortizing in the last 3 years (for a total of US$800 million to be issued between FY2017/18 and FY2018/19), and the reopening of the 2045 Bond (US$350 million).

2) S2- the domestic market only partially absorbs the domestic maturities (up to $60.0 billion per year), resulting in an increase of ICM issuances up to US$1.5 billion between FY2017/18 and FY2018/19.

3) S3- reflects S1, with the introduction of variable interest-rate domestic instruments in equal proportion to the fixed-rates (50.0% / 50.0%) from FY2016/2017.

4) S4 reflects S1, except that the instruments with longer maturity (between 10 and 30 years), are increased by 50.0% with a corresponding reduction in the shorter tenor issues.

6.3 OUTPUT FROM TOOLKIT

The output of the toolkit shows clear cost/risk tradeoffs among the strategies and is presented in **Table 6** below.

Table 6: Cost and Risk indicators of the four selected strategies at end-March 2018

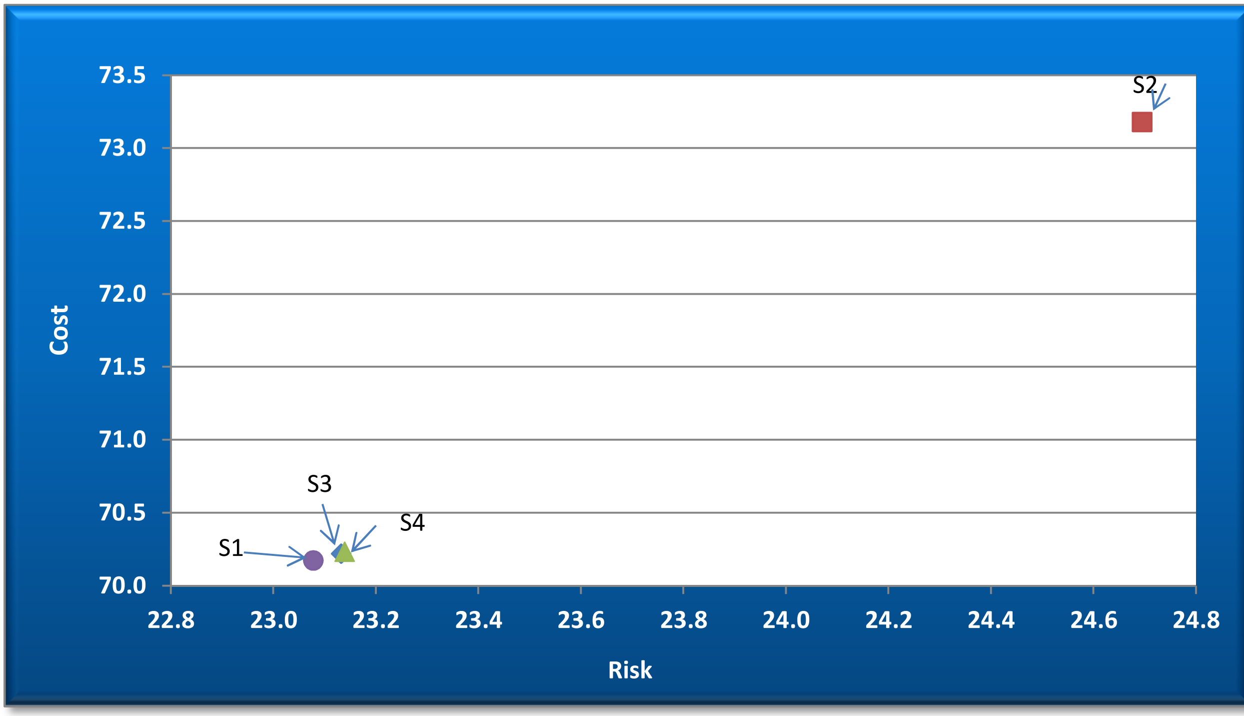
Risk Indicators		2015	As at end 2018			
		Current	S1	S2	S3	S4
Nominal debt as % of GDP		117.5	110.4	110.4	110.4	110.4
Interest payment as % of GDP		6.50	5.98	5.98	6.01	6.01
Implied interest rate (%)		5.53	5.60	5.60	5.63	5.64
Refinancing risk	Debt maturing in 1yr (% of total)	2.3	7.2	6.8	6.6	6.7
	Debt maturing in 1yr (% of GDP)	2.7	7.9	7.5	7.2	7.4
	ATM External Portfolio (years)	10.3	10.4	10.6	10.6	10.4
	ATM Domestic Portfolio (years)	9.7	8.2	8.3	8.6	8.7
	ATM Total Portfolio (years)	10.1	9.6	9.8	9.9	9.7
Interest rate risk	ATR (years)	7.6	7.8	8.0	8.0	8.0
	Debt refixing in 1yr (% of total)	32.9	35.6	35.6	37.5	35.1
	Fixed rate debt (% of total)	68.5	70.3	69.9	67.6	70.3
FX risk	FX debt as % of total	61.4	63.6	66.3	63.5	63.6

Source: Ministry of Finance and the Public Service/ MTDS Toolkit

In light of the above, the following are observed:

- S2 is sub-optimal as it will raise the exposure to USD to two-thirds of the portfolio by end-FY2018/19. As shown in figure 13, the strategy would further increase exchange rate risk during a FX shock. The introduction of longer maturity of the international bonds, thereby avoiding bunching maturities in the next 5 years means that the cost of S2 is also higher than the other strategies.

Figure 13: External debt / GDP of the four selected strategies at end-March 2018



Source: Ministry of Finance and the Public Service/ MTDS Toolkit

- As shown in **Table 6**, interest rate exposure increases under S3 as the percentage of debt refixing in one year is higher than S1 and S4 due to the increase of variable rate instruments. Although the impact of an interest rate shock on S3 within the next three years is quite limited, this impact would be significantly higher than the other three strategies in the following years.

- Compared to S1, S4 marginally increases the average maturity of the domestic portfolio to 8.7 years compared with 8.2 years thereby reducing the overall refinancing risk with a relatively marginal increase in cost of 4 bps.

In conclusion, the strategy for the medium-term will be guided by the cost/risk benefit of strengthening the domestic market. Excluding strategies that further aggravate the exchange rate risk exposure (S2) or those that may pose significant interest rate risk in the medium term (S3), the analysis is suggesting a choice between S1 and S4.

The current limited access to the domestic market implies that investors' demand would be a key factor in solving the trade-off between S1 and S4, thus influencing the strategy choice. At the current market price for domestic securities, lengthening the maturity in line with S4 is preferred. However, S1 should not be ruled out if the domestic yield curve becomes steeper or demand for longer term instruments does not increase.

The Government has established new targets for the medium-term, based on the scope of the debt as defined by the GOJ and the fact that the toolkit does not accommodate pre-funding and liability management operations such as debt buy-backs. These targets are outlined in **Table 7** below.

Table 7: Debt indicator targets for end-FY2016/17

INDICATORS	TARGETS END -MARCH 2017 Minimum	Maximum	end-FY2018/19
CURRENCY RISK			
Foreign currency domestic debt/Total debt (%)	8.0	10.0	10.0
Total foreign currency debt/Total debt (%)	61.0	65.0	65.0
INTEREST RATE RISK			
Total debt			
Fixed-rate	67.0	70.0	70.0
Floating-rate	30.0	33.0	30.0
Domestic debt			
Fixed-rate	60.0	65.0	70.0
Floating-rate	35.0	40.0	30.0
External rate			
Fixed-rate	70.0	72.0	70.0
Floating-rate	28.0	30.0	30.0
REFINANCING RISK			
Maturity structure			
Average maturity (years)	≥9	-	≥9
% Maturing in 1 year or less	-	≤10	≤10

Source: Ministry of Finance and the Public Service

Based on the scheduled activities in the debt portfolios during the fiscal year FY2016/17, the above targets are established for end-March 2017:

- **Foreign currency risk-** Foreign currency debt is expected to account for between 8.0% and 10.0% of the domestic portfolio at the end of the year. The proportion is expected to remain flat compared to end-March 2016 as the Government is not planning to borrow from the PCDF. In addition, all domestic maturities, including maturing US dollar benchmark notes, will be financed through the issuance of local currency benchmark notes. At the same time, the foreign currency debt relative to total debt is expected to increase marginally, and is expected to be within the targeted range of 61.0% to 65.0%.

- **Interest rate risk-** The Government will maintain the fixed-/ variable-rate composition in the domestic portfolio during FY2016/17 in order to optimize on the interest-rate structure of the portfolio and based on investors' demand the GOJ will issue only fixed-rate debt in the market. However, with uncertainty surrounding global interest rates the Government will issue only fixed rate debt in the external market. As a result, fixed rate debt is expected to account for 70.0%-72.0% of the external portfolio. The targeted range of fixed-rate debt in the total debt portfolio is 67.0% -70.0%.

- **Refinancing risk**- The Government plans to issue securities along all segments of the yield curve during the year. The ATM is expected to remain above 9 years as focus will be on longer-tenor securities in the domestic market, and long-term loans from multilateral and bilateral sources in FY2016/17. The proportion of debt maturing in one year or less is not expected to exceed 10.0% at end-March 2017.

SECTION VII: ANNUAL BORROWING PLAN - FY 2016/17

The financing requirement for FY2016/17 is projected at $89,384.4 million or 5.5% of GDP. This represents a significant decrease of 30.7% over the financing requirement for FY2015/16. It is projected that of this amount, $27,921.7 million will be funded from the domestic market through the issuance of bonds and $14,000.00 million in Treasury Bills.

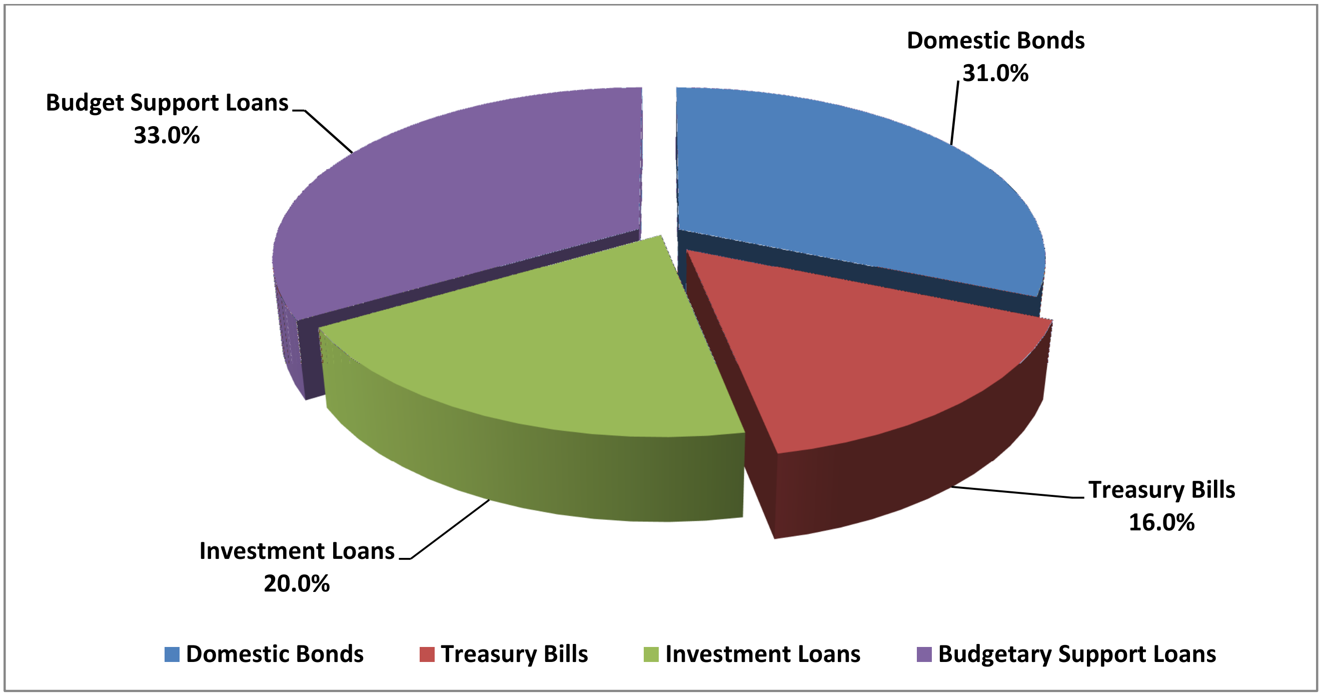
Funding from external sources will include multilateral loans in the form of budget support and investment loans. Cumulatively, external funding is projected to be $47,462.7 million (**see Table 8 and Figure 14**).

Table 8: Annual Borrowing Plan for FY2016/17

	Budgeted (J$ mn)
Domestic ($mn)	**$41,921.7**
Market Issues	$27,921.7
Treasury Bills	$14,000.0
External (in US$mn)	**$47,462.7**
Investment loans-US$140.0mn	$17,579.4
Budget support (US$238.0mn)	$29,883.3
IDB-US$150.0mn	$18,834.0
World Bank-US$88.0mn	$11,049.3
Total ($mn)	**$89,384.4**

Source: Ministry of Finance and the Public Service

Figure 14: Annual Borrowing Plan for FY2016/17



Source: Ministry of Finance and the Public Service

7.1 ISSUANCE STRATEGY

The Government will tap the domestic market with the issuance of fixed-rate securities only, in line with strategy S4.

This strategy is predicated on the Government's plans to issue primarily fixed rate securities in the domestic market during FY 2016/17. This is consistent with the Government's re-entry into the market in the last quarter of FY2015/16 to reactivate the domestic market. In FY2016/17, the Government will maintain a constant presence in the market in order to continue to facilitate the resumption of active secondary market trading in government securities.

In addition, the strategy is in line with the baseline assumptions underpinning the macroeconomic environment over the medium-term for both domestic and external capital markets. The forecasted macro-variables were encapsulated in the analysis of the cost/risk tradeoff for the issuances.

A 273-day Tranche Treasury Bill will also be re-introduced during the first quarter of FY2016/17. The issuance strategy, as articulated in previous reviews of the MTDS, to create on-the run benchmark notes at various segments along the yield curve, will be maintained.

7.2 LIQUIDITY BUFFERS

Based on the high level of maturities in FY 2017/18, refinancing risk could pose a threat to debt management operations. Liquidity buffers can play an important role in reducing refinancing risk, therefore, the GOJ will gradually build cash buffers, taking advantage of the prevailing low-interest rate environment to cover at least three months of debt service costs through the pre-funding of maturities.

The PDMA 2012, which guides the debt management operations, supports this strategy through Sections 6 and 10 of the Act. These provisions empower the Minister with responsibility for Finance to undertake portfolio management operations, and to borrow to refinance any maturing or outstanding public debt, respectively. Portfolio management operations include roll-overs, swaps, buybacks, switches, other liability management transactions and the redemption of debt instruments. During the upcoming fiscal year, the Government will continue the programme, started in FY 2015/16, of making opportunistic use of tools such as swaps, buybacks, and switches in its ongoing liability management programme.

7.3 HEDGING

Proactive debt management involves identifying risks to which the portfolio is exposed and formulating appropriate strategies to mitigate the identified risks. The debt portfolio is susceptible to market risks inherent in foreign loan arrangements. As a result, the Government keeps abreast of the global market environment and assesses changes in market variables that will trigger these potential risks. [4]

In the past, the Government has taken advantage of the Inter-American Development Bank (IDB) option to convert multi-currency loans to USD single-currency loans. This has reduced the associated exchange rate risk and the shock of parity changes accruing and negatively affecting the external stock of debt. Likewise, the conversion of some higher cost-adjustable loans to a LIBOR-based interest rate structure was undertaken to benefit from the prevailing low LIBOR rates. This strategy has proved to be beneficial in terms of cost savings to the Government, due to lower debt servicing costs.

The Government continues to seize opportunities to improve the dynamics of the portfolio. In this regard, in response to the recent movement in LIBOR and projections for increases in

[4] The multilateral institutions, a major creditor category of external debt, offer flexible, market-based products that enable borrowing member countries to tailor their funding needs consistent with their debt management objectives, and/or risk management strategies, through a menu of embedded options available at the negotiation of the financial terms for loans. The options available include interest rate conversion, currency conversions, flexible repayment options, caps and collars

interest rates, the Government will contemplate the conversion of some variable rate (LIBOR-based) loans to fixed interest rate loans. In December 2015, the Federal Open Market Committee (FOMC) decided to raise the Fed Funds Target Rate to 0.25-0.50% and the outlook is for subsequent increases during 2016. The Government will therefore keep abreast of interest rate movements and seek to take advantage of the available interest rate conversion option at an opportune time during FY2016/17. The rationale is to contain debt servicing costs and to increase the proportion of fixed rate debt in the portfolio.

The Government will also continue to subscribe to the World Bank's Caribbean Catastrophe Risk Insurance Facility (CCRIF) to ensure indemnification and rapid financing flows in the occurrence of a catastrophic event.

SECTION VIII: DOMESTIC MARKET DEVELOPMENT UPDATE

Development of the domestic debt market continues to be an integral strategic objective of Jamaica's three-year Medium-Term Debt Management Strategy. Over the years, Jamaica's domestic capital market was characterized by robust and efficient primary and secondary markets, operating under the guidance of government policies and displaying the ideal symbiotic relationship between Government and the market. The Government played its role in market development while satisfying its funding requirements. The domestic market is relatively well-developed, with a comprehensive legal, tax, and regulatory infrastructure; smooth and secure depository and settlement arrangements; and a liberalized financial system with competing intermediaries.

Since 2013, however, activity in the market has been limited consequent on the protracted effect of the Government's liability management operation, the National Debt Exchange (NDX) as well as certain legislative and regulatory reforms being undertaken in the financial sector. The reforms, particularly in the securities sector, comprised, *inter alia*, the reform of the retail repo market in order to mitigate systemic risk.

The Jamaican economy has continued to experience marked improvements in some vital macroeconomic variables, including inflation, GDP and the NIR. Additionally, there were improvements in Jamaica's ranking in the *World Bank Ease of Doing Business Index*, as well as upgrades in the country's credit ratings by three rating agencies. The improvements were in turn manifested in improved investor confidence demonstrated by the continued reduction in the weighted average yields on all three tranches of GOJ Treasury bill rates and the BOJ 30-day signal rate.

The Investor Relations (IR) programme, enhanced during FY2014/15, has served as a conduit for greater dialogue and better understanding of the expectations of the market regarding Government securities. Market surveys undertaken in December 2015 indicated a significant improvement in investor confidence, and the readiness of the market to invest in new and/or reopened GOJ bonds.

Based on this positive market feedback, re-entry into the domestic market was successfully achieved in February 2016. The Government's re-entry into the domestic bond market was strategically timed to coincide with the February 2016 $60.9 billion benchmark bond maturities which created a high level of liquidity in the market. The new issues tapped various segments of the yield curve and were developed within the context of the debt targets, the existing maturity profile and refinancing risk.

Going forward, certain policy changes will support the domestic market programme. Among these are the pension reforms announced in FY2015/16, which are expected to increase the demand from pension funds for GOJ issuances at the long end of the curve. Consistent with the theory that pension systems can have a critical impact on capital availability and liquidity, the Government will issue long-dated instruments to satisfy investor demand and the strategy objective of extending maturities.

Positive institutional developments also facilitated the GOJ's ability to re-access the bond market and to achieve its goal of returning market activity to pre-NDX levels. In furtherance of its national payment system reform programme, the BOJ initiated discussions with the Jamaica Stock Exchange (JSE) and securities dealers in 2011 with a view to establishing a fixed-income trading platform and the listing of GOJ bonds on the JSE. The planned listing of GOJ securities on the Jamaica Stock Exchange is expected to improve operational efficiency through greater transparency and a higher level of security, promote deeper and more liquid markets, facilitate real-time price discovery, improved market information and fair trading; and consequently support the development of the domestic capital markets.

Foreign investor participation in the domestic market is another initiative to be pursued during FY 2016/17. In response to interest expressed by foreign investors, exploratory discussions have begun with foreign and local stakeholders to ascertain the requirements to formalise and establish this investor class as a part of the domestic market. This will broaden and diversify the investor base, both geographically and institutionally. Further consultations will continue in this regard.

Over the period, the Government will explore the buyback or swap of near-term benchmark investment notes along the yield curve. This is consistent with the MTDS, and present long-term benefits in respect of investors' portfolio needs and the achievement of Government's strategic objectives.

During FY 2016/17, the DMB will continue its policy of conducting debt operations openly and transparently through the provision of timely notices, reports and statistics on the debt and on the DMB's operations via a range of communication channels. Further, pursuant to the debt management mandate of promoting advances in instruments and issuance techniques, the DMB will support market initiatives that foster a deeper and more liquid securities market, and will continue to:

- Further develop the IR programme and communication strategy;
- Hold general market consultations and one-on-one meetings with key stakeholders;
- Increase co-ordination with the BOJ, particularly in respect of the enhancements to the central securities depository system; and
- Support the listing of GOJ securities on the JSE.

In the interest of transparency in debt issuances a calendar for the issue of GOJ debt securities for FY2016/17 is presented in Table 9 overleaf. A schedule of GOJ Treasury bill tenders is available at Table 10.

Table 9: Issue of Government of Jamaica Securities for FY2016/17

TENDER DATE	
Q1	**INSTRUMENT TYPE**
April13, 2016	1-month Treasury Bill Tender
April 20, 2016	3-month and 6-month Treasury Bill Tenders
May 11, 2016	1-month Treasury Bill Tender
May 18, 2016	3-month, 6-month and 9-month Treasury Bill Tenders (***9-month T/Bills*** - ***New Tranche***)
May 25, 2016	Reopen FR Benchmark Note Due Feb 2022 - 6**-yr** Reopen FR Benchmark Note Due Feb 2046 – **30-yr**
June 15, 2016	1-month, 3-month and 6-month Treasury Bill Tenders
Q2	**INSTRUMENT TYPE**
July 13, 2016	1-month Treasury Bill Tender
July 20, 2016	3-month and 6-month Treasury Bill Tenders
August 10, 2016	1-month Treasury Bill Tender
August 17, 2016	3-month, 6-month and 9-month Treasury Bill Tenders (***9-month T/Bills*** - ***New Tranche***)
August 24, 2016	Reopen FR Benchmark Note Due Feb 2046 **New Issue** FR Benchmark Note Due Feb 2026 – **10-yr**
September 14, 2016	1-month, 3-month and 6-month Treasury Bill Tenders
Q3	**INSTRUMENT TYPE**
October 12, 2016	1-month Treasury Bill Tender
October 19, 2016	3-month and 6-month Treasury Bill Tenders
November 16, 2016	1-month, 3-month, 6-month and 9-month Treasury Bill Tenders (***9-month T/Bills*** - ***New Tranche***)
November 23, 2016	Reopen FR Benchmark Note – Due 2022 Reopen FR Benchmark Note – Due 2026 **New Issue** FR Benchmark Note Due 2031 – **15-yr**
December 14, 2016	1-month, 3-month and 6-month Treasury Bill Tenders
Q4	**INSTRUMENT TYPE**
January 11, 2017	1-month Treasury Bill Tender
January 18, 2017	3-month and 6-month Treasury Bill Tenders
February 15, 2017	1-month, 3-month, 6-month and 9-month Treasury Bill Tenders (***9-month T/Bills*** - ***New Tranche***)
February 22, 2017	**New Issue** FR Benchmark Note – Due 2020 – **3-yr** Reopen FR Benchmark Note – Due 2026 Reopen FR Benchmark Note – Due 2031
March 15, 2017	1-month, 3-month and 6-month Treasury Bill Tenders

Source: Ministry of Finance and the Public Service

Table 10: Treasury Bill Schedule for FY2016/17

Proposed Schedule for Treasury Bills Tenders For Fiscal Year 2016/17		
Proposed Treasury Bill Tranche	**Proposed Tender Date**	**Proposed Issue Date**
Quarter 1		
1-month T/Bill	April 13, 2016	April 15, 2016
3- & 6-month T/Bills	April 20, 2016	April 22, 2016
1-month T/Bill	May 11, 2016	May 13, 2016
3- & 6- month T/Bills, 9-month T/Bills (***New Tranche***)	May 18, 2016	May 20, 2016
1-, 3- & 6-month T/Bills	June 15, 2016	June 17, 2016
Quarter 2		
1-month T/Bill	July 13, 2016	July 15, 2016
3- & 6-month T/Bills	July 20, 2016	July 22, 2016
1-month T/Bills	August 10, 2016	August 12, 2016
3- & 6-month T/Bills, 9-month T/Bills (***New Tranche***)	August 17, 2016	August 19, 2016
1-, 3- & 6-month T/Bills	September 14, 2016	September 16 2016
Quarter 3		
1-month T/Bill	October 12, 2016	October 14, 2016
3- & 6-month T/Bills	October 19, 2016	October 21, 2016
1-, 3-, & 6-month T/Bills, 9-month T/Bills (***New Tranche***)	November 16, 2016	November 18, 2016
1-, 3- & 6-month T/Bills	December 14, 2016	December 16, 2016
Quarter 4		
1-month T/Bill	January 11, 2017	January 13, 2017
3- & 6-month T/Bills	January 18, 2017	January 20, 2017
1-, 3-, & 6-month T/Bills, 9-month T/Bills (***New Tranche***)	February 15, 2017	February 17, 2017
1-, 3- & 6-month T/Bills	March 15, 2017	March 17, 2017

Source: Ministry of Finance and the Public Service

GLOSSARY

Amortization

Amortisation refers to principal repayments on loans. These repayments reduce the borrowed money by portions, which are usually fixed amounts or expressed as a percentage of the whole.

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 Bonds

These are bonds that are sufficiently large and actively traded, such that their prices serve as reference for other bonds of similar maturities. More specifically, the benchmark is the latest issue within a given maturity. For a comparison to be appropriate and useful, the benchmark and the bond being measured against it should have a comparable liquidity, issue size and coupon. Government bonds are almost always used as benchmark.

Contingent Liabilities

Contingent liabilities are obligations that materialise if a particular event occurs. They can be explicit, if the sovereign contractually acknowledges its responsibility to cover the beneficiary under specific circumstances, or implicit, when the government is expected to do so because it has a "moral" obligation to act, in most cases related to a high opportunity cost of not intervening.

Debt Service Payments

Debt service payments cover interest charges on a loan. Some sources also include amortisation under debt service payments. These payments liquidate the accrued interest (and loan obligations if amortisation is included).

Eurobond

A bond underwritten by international investors and sold in countries other than the country of the currency in which the issue is denominated. Usually, a eurobond is issued by a corporate or sovereign and categorised according to the currency in which it is denominated. In July 1997 Jamaica issued a five-year US$200mn Eurobond, which was its first ever.

Fiscal Responsibility Framework

The Fiscal Responsibility Framework, which came into effect October 1, 2010, is an encompassing framework which has, at its centre, fiscal rules that are designed to achieve desired fiscal outcomes, most notably, a reduction in, and maintenance of, a sustainable level of debt.

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.

Investment Loan

The terms refer to loans, which fund capital development activities. The term capital refers to lasting systems, institutions and physical structures. Investment loans are typically funded from foreign sources by bilateral arrangements and multilateral institution.

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.

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 Bills

Treasury Bills are short-term debt obligations backed by the government with maturities less than one year. The Government of Jamaica issues Treasury Bills with 30-, 60- and 180-day tenors. Treasury Bills are issued through a competitive bidding process at a discount from par, which means that rather than paying fixed interest payments like conventional bonds, the appreciation of the instrument provides the return to the holder.

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 yield curve for Government securities is often used as a benchmark for pricing other debt in the market. The curve is also used as an indicator of macroeconomic conditions.