BCAN

MINISTRY PAPER NO. 18
DEBT MANAGEMENT STRATEGY 2007/2008

INTRODUCTION

1. The *Debt Management Strategy*, an annual publication of the Ministry of Finance and Planning, provides information on the Government's objectives and strategies for managing the outstanding stock of debt while meeting the Government's financing needs at minimum cost and risk.

2. This document provides information on the Government's objectives, policies, plans and strategies for the fiscal year and over the medium-term. It also reports on the achievements and challenges during the previous year. It takes into account the composition of the debt portfolio, the fiscal operations, developments in the macro-economy and in the domestic and international capital markets. The *Debt Management Strategy* is complemented by details on Jamaica's public debt and debt developments contained in the annual *Budget Memorandum* published by the Ministry of Finance and Planning.

3. The objective of the Debt Management Strategy continues to be:

To raise adequate levels of financing on behalf of the Government of Jamaica at minimum costs, to develop and implement strategies to ensure the long-term sustainability of the public debt and to reduce the Government's exposure to risk.

4. In pursuit of this objective and in keeping with the medium-term strategy, the Government has sought to:

- Maintain a prudent debt structure by:
  - having an appropriate mix of fixed-rate and floating-rate debt to further diversify and minimize interest-rate risk;
  - extending and smoothing the maturity profile of the debt to better manage refinancing risk and
  - minimizing foreign currency risk
- Further diversify the debt portfolio;
- Use market mechanisms for domestic debt issuances;
- Increase the transparency and predictability of primary market debt issuance; and
- Promote and build a liquid and efficient market for government securities.

5. Since the implementation of the Strategy in 1998/99 significant progress has been made in:

i. extending the maturity profile;

Review of FY2006/07

10. At the end of March 2007, total public debt stood at $923.1 billion. This represented an increase of 9.0% over the stock of $847.3 billion recorded at the end of March 2006. The Debt-to-GDP ratio stood at 130.4% at the end of FY2006/07, compared with the 131.8% recorded at the end of FY2005/06 and the 138.2 % at the end of FY2004/05.

11. The stock of public and publicly guaranteed external debt stood at $409.2 billion (US$6,035.3 million) at the end of March 2007. This represented an increase of 12.2% compared with the stock of $364.6 billion at the end of March 2006. In US$ terms, the external debt rose by 8.4% from US$5,567.4 million at the end of March 2006. This was due to increases in both Central Government and Government Guaranteed debt. As a percentage of GDP, the external debt reflected a marginal increase to 57.8% at the end of FY2006/07, compared with 56.6% at the end of FY2005/06.

12. Central Government external debt increased from $316.1 billion (US$4,826.3 million) at the end of March 2006 by 11.8% to $353.3 billion (US$5,210.3 million) at the end of March 2007. In March 2007, the Government took advantage of favourable market conditions and low long-term interest rates to partially pre-fund its FY2007/08 external borrowing programme, raising US$350 million. The increase in Government Guaranteed external debt mainly reflected borrowings in support of the financial restructuring of the debt portfolio of Clarendon Alumina Production Ltd. (CAP) and for the Fifth Phase Expansion Programme of the Port Authority of Jamaica.

13. Central Government stock of domestic debt at the end of March 2007 stood at $513.9 billion. The debt stock increased by $31.2 billion or 6.5% over that at the end of March 2006. The main factors contributing to the increase were the issue of government securities to cover Bank of Jamaica (BOJ) losses, the capitalization of interest on LRS issued to replace FINSAC Bonds and the assumption of contingent obligations in respect of the Sugar Company of Jamaica Ltd.

14. The rate of growth of the domestic debt declined from 39.6% in FY2001/2002 to 6.5% in FY2006/2007 and the domestic debt-to-GDP ratio declined from 79.0% in FY2001/2002 to 72.6% in FY2006/2007.

15. During FY2006/2007 the *Debt Management Strategy* sought to:

- Maintain an appropriate mix of fixed-rate and floating-rate debt to further diversify and minimize interest-rate risk;
- Extend and smooth the maturity profile of the debt to better manage refinancing risk;
- Minimize foreign currency exposure of the domestic debt portfolio;
- Increase the use of the auction mechanism for issuance of domestic debt securities; and
- Increase the transparency and predictability of debt issuance.

Increased Transparency and Predictability of Debt Issuance to better manage Refinancing Risk

23. The Government remains firm in its commitment to transparency and predictability in the execution of its policies. During the year, the Government continued to publish comprehensive, timely and reliable information on the performance and management of the public debt, thereby ensuring greater clarity and accountability to the general public.

24. Comprehensive domestic and external debt data are published on the Ministry of Finance and Planning's website (*www.mof.gov.jm/dmu*) on a monthly basis. During FY2006/07, the Government published on a monthly basis schedules of upcoming market issues and all results of all market issues. Information on its debt strategy, operations and relevant investor information are also available on the Ministry's website *(www.mof.gov.jm/dmu)*.

25. During FY2006/07, the Government continued its market-oriented approach to debt management, actively engaging the local and international financial communities in dialogue through various media such as press conferences, meetings, investor fora and presentations as well as quarterly conference calls. Formal consultations and discussions between the public and private sectors continued in an effort to explore options for reducing the debt and debt servicing costs.

Minimizing Foreign Currency Exposure of the Domestic Debt Portfolio

26. The Government continued to make significant progress in reducing the foreign currency exposure of the domestic debt portfolio towards the internationally acceptable standard of 10%. At the end of FY2006/07, the overall foreign currency component of the domestic debt had declined to 14.5% from 15.9% at the end of FY2005/06 and 18.9% at the end of FY2004/05. US$-Indexed Bonds totaled $24.6 billion (US$362.2 million equivalent) or 4.8% of the domestic debt portfolio at the end of FY2006/07, compared with $25.6 billion (US$389.9 million equivalent) or 5.3% at the end of FY2005/06. The stock of US$-denominated bonds stood at $50.0 billion (US$736.8 million) or 9.7% of the domestic debt portfolio at the end of FY2006/07. This compared with $51.2 billion (US$781.2 million) or 10.6% of the domestic debt stock at the end of FY2005/06.

Increase Use of Auction Mechanism for issuance of Domestic Debt Securities

27. The Government continued to use the auction system to issue fixed rate securities across a range of maturities. A total of 10 auctions were conducted over a 7-month period. During the last quarter of FY2006/07, the Government was able to stay out of the domestic market as a result of the pre-funding conducted in the international capital market at the end of FY2005/06. The Government was unable to re-open existing issues by auction as the required systems were not in place.

development of the long end of the yield curve with the objective of reducing refinancing risk over the medium-term.

Minimize Foreign Currency Exposure of the Domestic Debt Portfolio

34. The Government will continue to build on the progress made and take the necessary steps to further reduce the foreign currency exposure of the domestic debt portfolio. Except under extraordinary circumstances, the Government will continue to limit the use of U$-denominated and U$-Indexed instruments in the domestic market, in order to further reduce the foreign currency exposure of the domestic debt portfolio.

Increase the Use of the Auction System

35. The Government will continue to use the auction mechanism to ensure that borrowing requirements are met at minimum cost and to promote intense competition through the bidding process.

36. Auctions will be conducted on a regular basis with issues across a wide range of maturities. The size of auctions will be gradually increased to create benchmarks. The required systems will be put in place to facilitate the re-opening of existing issues.

Increase Transparency and Predictability

37. Increased transparency and predictability have played and will continue to play a key role in guiding the Government's issuance strategy. Its approach to risk, relative costs, market conditions and opportunities, the size of maturing securities and the maturity profile of the existing stock of debt will determine funding sources and instrument types. These are all consistent with Government's efforts to maintain a prudent debt structure.

38. The Government will offer securities in the domestic market on a regular and pre-announced basis. While the Government remains committed to the use of market mechanisms for the issuance of securities, it will be flexible in terms of the options used to meet the budgetary requirements.

39. Transparency in the Government's debt operations and borrowing programme will continue to be enhanced by:

- Monthly publications of comprehensive external and domestic debt data;
- Advance notices of upcoming debt issues;
- Quarterly announcements of Government's borrowing requirements;
- Monthly schedules of market issues;
- Timely publication of the results of market issues and
- Quarterly reports on debt related developments.