

MINISTRY PAPER No. _____

Refinancing of €204.4 million loan to The Development Bank of Jamaica from Banco de Desarrollo Economico y Social de Venezuela (Bandes) which was on lent to the National Road Operating and Constructing Company Limited (NROCC) and guaranteed by the Government of Jamaica

AND

Government Guarantee under the provisions of the Approved Organizations and Authorities (Government Guarantee) Act respect of a bond issue with a face value of US\$ equivalent of €204, 386,447 by NROCC under the provisions of the Approved Organizations and Authorities Loans (Government Guarantee) Act.

1.0 INTRODUCTION

1.1 The Honorable House of Representatives is being asked to approve:

(A) The refinancing of a €204, 386,447. Note through the Issue of a new bond by the National Road Operating and Constructing Limited (NROCC). The issuance of the bond will facilitate:

- a. Early repayment of an existing loan from Banco de Desarrollo Economico y Social de Venezuela (Bandes) to the Development Bank of Jamaica (DBJ) in the amount of €204,386,447 at 7.5% that was on lent to the National Road Operating and Constructing Company Limited (NROCC) at 7.75%.
- b. Unwinding of an existing €/US\$ cross currency derivative (swap) held with Citibank N.A that was used to hedge the Euro exposure of the above loan for which a conditional Government of Jamaica (GOJ) guarantee was issued in the amount of up to US\$79 million.
- c. Contribution of US\$35.15 for NROCC's subordinated loan to Trans Jamaica Highway Limited for the construction of phase 1B1 of Highway 2000 derived from the proceeds of the proposed bond issue.

(B) The issue of a new GOJ guarantee in the amount of the US\$ equivalent of €204, 386,447, the face value of the existing Notes being redeemed

2.0 BACKGROUND

2.1 Cabinet will recall that by its Decision No. 37/08, dated 3 November 2008, approval was given for a Parliamentary Guarantee under the provisions of the Approved Organisations and Authorities Loans (Government Guarantee) Act, to come into effect in April 2009, in support of a loan of €204.4 million from the Development Bank of Jamaica Limited (DBJ) to NROCC The loan from DBJ to NROCC was lent at 7.75%, with the source of funds being a facility with the Banco de Desarrollo Economico y Social de Venezuela (Bandes) to DBJ in the amount of €204, 386,447.

2.2 Cabinet will further recall that by its Decision No. 22/09, dated 26 May, 2009, it had granted its approval for a Parliamentary Guarantee under the provisions of the Approved Organisations and Authorities Loans (Government Guarantee) Act in the amount of US\$79 million to support the DBJ's satisfaction of certain credit conditions required by Citibank NA under the terms of a cross currency swap entered into in March 2008 as a means of hedging against the volatility of the Euro in relation to the loan of €204.4 million from DBJ to NROCC.

2.3 Following the swap the revised terms of the loan are as follows:

- a) The debt being serviced at the date of execution of the swap agreement was for the conversion of the €204,386,447 at the prevailing EUR/ US\$ spot rate of \$1.524 which translated to US\$310,896,000.
- b) The interest rate was revised to 8.29% in US\$ terms. Due to the weakening of the Euro, and as a result of the swap transaction, the debt service payments being made by DBJ and NROCC exceed the amount of the actual debt service amount due to the Note holders. That is, the actual payments are US\$25,773,300, versus US\$20,349,000, (the current conversion of the Euro to US\$).
- c) A Credit Support Annex (CSA) requiring an independent amount of US\$2.331 million to be posted at each payment period. To date, DBJ has posted an amount of up to US\$15 million, in addition to making debt service payments. The CSA allows for the amounts posted to be returned at the maturity of the swap.

3.0 ISSUE

3.1 NROCC and DBJ, in seeking to find a solution to unwind the swap and satisfy NROCC's pending obligations regarding Highway 2000 for Phase 1B1 in the amount of up to US\$35.15 million, requested that NROCC's advisors, PricewaterhouseCoopers (PwC) to examine the opportunities that may be available to it via its existing debt facilities for raising the additional funds. The constraints of the mandate issued by the parties are that:

- a. The level of GOJ's guarantees already in issue should not be exceeded.
- b. The existing GOJ's debt service obligations in absolute terms should not be increased.

3.2 In performing its mandate, PwC compiled and presented certain preliminary information and a sent out a request for proposals for financing to several local and international financial institutions, including:

- a. Blaylock Robert Van/ Capital and Credit Merchant Bank (Blaylock/CCMB)
- b. Credit Suisse/ Jamaica Money Market Brokers (CS/JMMB)
- c. Goldman Sachs (GS)

