GOVERNMENT OF JAMAICA

PUBLIC DEBT ANNUAL REPORT FY2015/16

May 12, 2016

TABLE OF CONTENTS

Table of Charts

FOREWORD

The Annual Report provides a comprehensive assessment of Government of Jamaica's (GOJ) debt and debt management operations for FY2015/16.

For the review period, the GOJ continued to pursue prudent debt management activities to ensure that the budgetary requirements were financed at minimum cost while maintaining risks at manageable levels. The Government had a productive year in its debt management operations achieving significant milestones. Among these were US$2 billion raised in the international capital markets (ICM), the Petrocaribe liability management programme and the successful re-entry into the domestic debt market.

Effective debt management plays a crucial role in supporting the achievement of sustainable growth and economic stability. As a part of the commitment to increase transparency, the GOJ will continue to disseminate information on public debt operations.

The GOJ values your input, and welcomes your comments on the document at: invrelinfo@mof.gov.jm

Audley Shaw, CD, MP
Minister of Finance and the Public Service
May 12, 2016

Devon Rowe, CD
Financial Secretary
May 12, 2016

ACKNOWLEDGEMENTS

The publication of the GOJ's Public Debt Annual Report is a requirement under the Public Debt Management Act 2012 (PDMA). The document outlines the outcomes of the Government of Jamaica's (GOJ) public debt management operations for FY2015/16.

I would like to thank the staff of the Debt Management Branch for their role in the preparation of the Public Debt Annual Report, which portrays the Government's continued commitment to transparency and accountability. The team worked diligently to ensure that the publication presented an accurate representation of GOJ's public debt operations for the review period.

Sincere thanks to Miss Darlene Morrison, the Deputy Financial Secretary, Economic Management Division and Mrs. Michele Robinson, Debt Management Consultant for their input which contributed to the development of this Annual Report.

Dian Black (Miss)
Principal Director
Debt Management Branch
Economic Management Division

INTRODUCTION

During Fiscal Year 2015/16, the GOJ had noteworthy accomplishments in debt management operations, which were achieved in a delicately balanced global financial environment. This environment was characterized by mixed growth outcomes across various regions, the continued effects of declining crude oil prices, economic slowdown in some countries such as China, geopolitical tensions in the Middle East and some European countries, as well as lower commodity prices and demand.

While economic performance in most regions was sluggish in 2015, recovery in the United States of America (USA) and the United Kingdom (UK) remained steady, bolstered by moderate performances in key macroeconomic variables. Both the UK and the USA recorded gains in labour market performance with the unemployment rate falling to 5.1% and 5.0%, respectively. As labour market performance continued to strengthen, consumer confidence improved; however, consumers remained cautious in their spending patterns. Additionally, the US Federal Reserve (FED), increased interest rates by 0.25% on December 16, 2015.

European and Central Asian countries had mixed results in macroeconomic outturns. Turkey led with a growth figure of 4.2%, attributed to benefits arising from lower fuel costs and higher consumption. Spain was the eurozone's strongest performer with growth of 3.5% in 2015 and after several years of no growth, Italy's economy returned to marginal growth of 0.8%. In contrast, the ongoing geopolitical strain between Russia and Ukraine resulted in international sanctions against Russia. This development, along with low trade balances and a declining currency resulting from lower oil prices, further weakened economic outturns. Despite the bailout received and structural reforms implemented, Greece's economy fell back into recession during the second half of 2015. As with most economies, European countries were hindered by slow export markets due to the slowdown in economic activity in China and other emerging markets.

According to the *January 2016 Global Economic Prospects* published by the World Bank Group, in 2015, economic activity in the Latin America and Caribbean (LAC) region contracted, mainly due to the ongoing economic turmoil in Brazil and Venezuela. Brazil's economic slowdown has been fueled by political turmoil, credit ratings downgrade and a bleak fiscal position characterized by rising inflation and unemployment, while Venezuela's economy continues to deteriorate due to high inflation and declining oil export earnings. On the other hand, the Caribbean region experienced moderate growth bolstered by lower oil prices and strong tourism demand which led to a 5.0% increase in the export of goods and services in 2015.

Emerging market sovereigns issued bonds at record volumes in 2014; however, in 2015, growing vulnerabilities in some of these market economies- mainly China, Russia and Brazil- caused concern among international investors. Notwithstanding, countries including Jamaica, Brazil, Mexico, and the Dominican Republic had successful bond issuances in the international capital markets (ICM). Jamaica and the Dominican Republic issued bonds to support debt buyback transactions. Additionally, Mexico launched its 100-year government notes in the amount of $1.5 billion euros.

For the review period, Jamaica's economy, aided by improving growth in the U.S and low oil prices, weathered the volatility surrounding the global economy to register moderate gains in several key indicators. According to information from the Planning Institute of Jamaica (PIOJ) quarterly press briefing, for the period April 2015 to December 2015, the economy grew by an estimated 0.9% in real terms as a result of growth in key industries. Manufacturing recorded the highest most growth of 2.4% followed by hotels and restaurants, with 2.0%. Inflation continued on a downward trajectory with a decrease of 0.5 percentage point from 4.0% to 3.5%.

At the end of the penultimate year of the four-year Extended Fund Facility Arrangement (EFF), the country has had ten (10) successfully concluded quarterly reviews. Preliminary indications are that all targets for the 11th and 12th reviews in respect of the periods ending December 2015 and March 2016 have been achieved. The current account balance recorded a deficit of US$352.0 million for April to December 2015, which is US$656.8 million less compared to the US$1,008.8 million for the corresponding period in the previous year. Net remittances at the end of calendar year 2015 stood at US$1,993.2 million, US$63.4 million, or 3.3 percentage points more than the US$1,929.8 million recorded for the previous year. Similarly, Net International Reserves (NIR) increased by US$122.5 million from the US$2,293.0 million at end-March 2015 to US$2,415.5 million at end-March 2016.

Debt management operations had a successful year. In July, the GOJ raised a record US$2.0 billion in the ICM of which US$1.5 billion was used to finance the Petrocaribe liability management transaction and the remaining US$0.5 billion was utilized for budget support. Jamaica was awarded the Latin America Bond of the Year from International Financing Review for its US$2.0 billion issuance. This operation liability management transaction was a significant contributor to the decline of the debt-to-GDP under the EFF-definition[1], from 137.3% to 124.5%, a decrease of 12.8 percentage points. Additionally, the country received credit rating upgrades from all three (3) major ratings agencies—Standard and Poor's Ratings Services (S&P), Fitch Ratings (Fitch) and Moody's The GOJ was also successful in its re-entry to the domestic bond market in February 2016, after a three-year absence.

The Debt Management Branch (DMB) will continue its mandate to meet the financing requirements of the Government at the lowest possible borrowing costs with a prudent degree of risk, while coordinating with monetary policy. These activities are supported by the Medium-Term Debt Management Strategy (MTDS), which informs debt management operations.

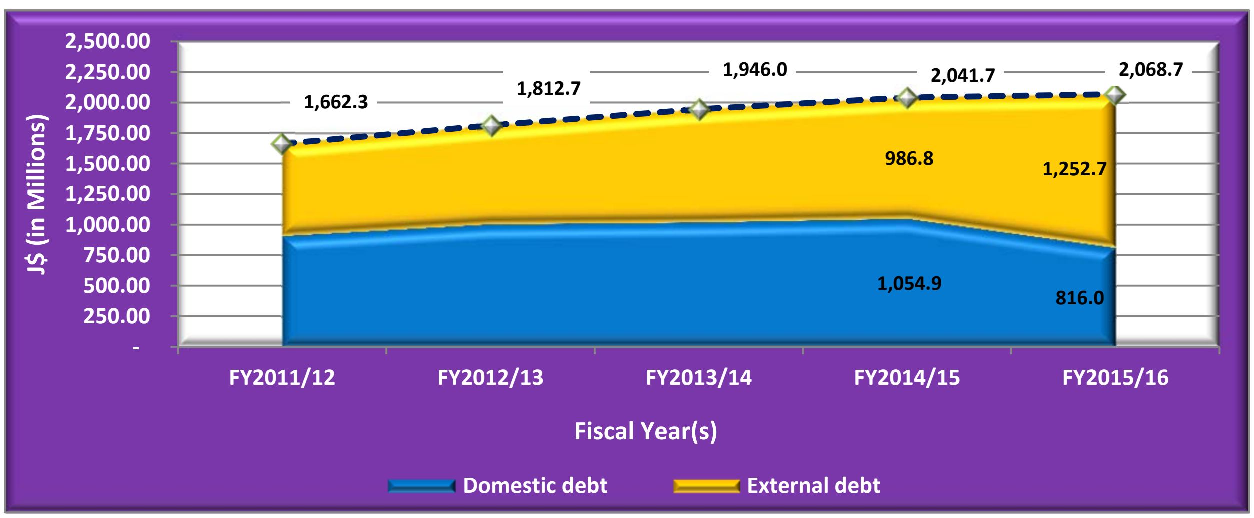
[1] **EFF-defined Total debt includes Central Government, Bank of Jamaica, net PetroCaribe debt, and external and domestic guaranteed debt**

TOTAL DEBT

The scope of the review covers the total debt as defined by GOJ, which includes Central Government, Bank of Jamaica and external guarantees. The outstanding GOJ defined public debt stock was $2,068.7 billion at end-FY2015/16 compared to $2,041.7 billion at end-FY2014/15. The nominal value of the debt repaid by the Government during FY2015/16 was greater than the total disbursement, however, the outstanding debt stock increased marginally by $27.0 billion or 1.3%. The increase was mainly due to revaluation of foreign currency debt in Jamaica dollar terms.

As shown in **Figure 1** below, for the period end-FY2011/12 to end-FY2014/15, the total debt stock in nominal terms has steadily increased and domestic debt accounted for the greater proportion of total debt. More debt was raised from domestic sources than from external sources up to FY2012/13; however, with the limited activity in the domestic market for Government securities and favourable lending terms from external sources, the Government satisfied the majority of its financing requirements from external sources. The proportion of external debt gradually increased, shifting the portfolio composition from majority domestic to majority external by end-FY2015/16, when the domestic debt accounted for 39.4% and external debt 60.6%.

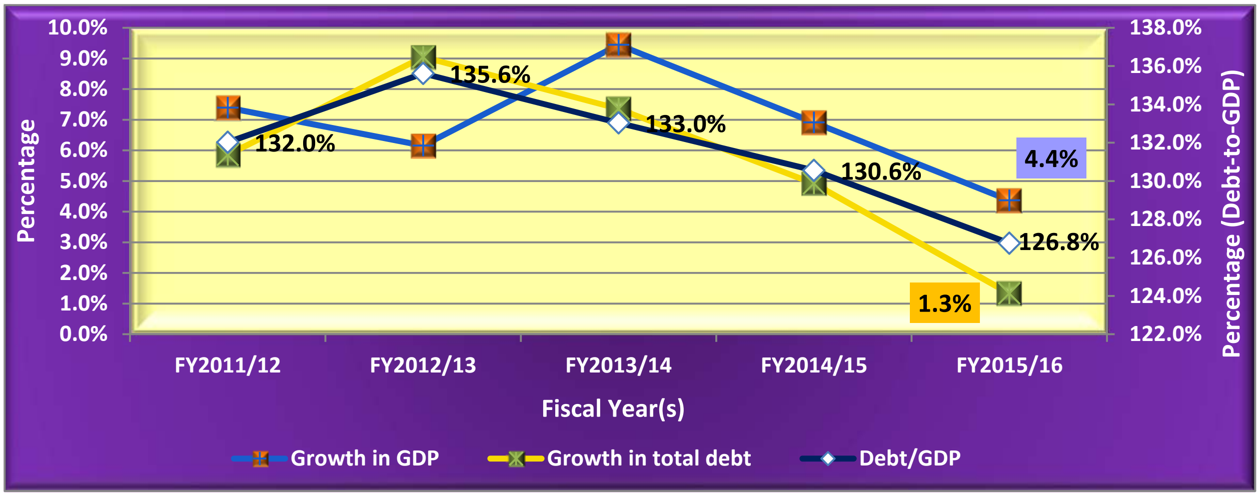
Figure 1: Total debt for period end-FY2011/12 to end-FY2015/16



Source: Ministry of Finance and the Public Service

Total debt-to-GDP, as defined by the GOJ, decreased by 3.8 percentage points from 130.6% at end-FY2014/15 to 126.8% at end-FY2015/16., due to a higher nominal growth in GDP than the nominal increase in the total debt stock. During FY2015/16, nominal GDP increased by 4.4%. As outlined in **Figure 2,** at end-FY2011/12 debt-to-GDP was 132.0% and increased to 135.6% at end-FY2012/13 as the growth rate in the debt stock outpaced that of GDP. In the subsequent years, as nominal GDP increased at a faster pace than the nominal growth in the domestic debt stock, the debt-to-GDP ratio continuously declined and was 130.6% at end-FY2014/15.

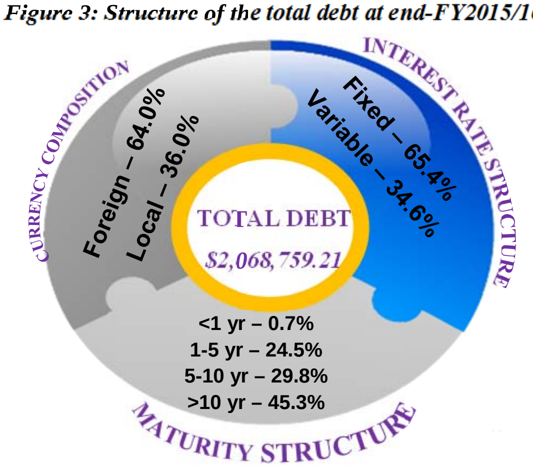
Figure 2: Rate of growth of debt and GDP, and debt-to GDP for the period FY2011/12 to FY2015/16



Source: Ministry of Finance and the Public Service

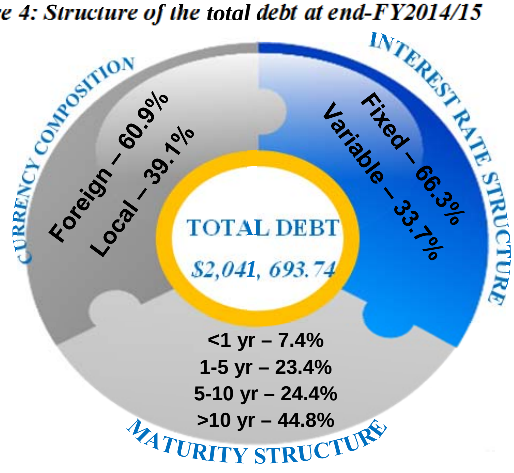
The various transactions executed in FY2015/16 resulted in changes to the interest rate composition, the currency composition and the maturity structure when compared to FY2014/15. The structure of the total outstanding debt at end-FY2015/16, based on these characteristics is shown in **Figure 3** below.

Figure 3: Structure of the total debt at end-FY2015/16



Source: Ministry of Finance and the Public Service

Figure 4: Structure of the total debt at end-FY2014/15



Source: Ministry of Finance and the Public Service

DOMESTIC DEBT

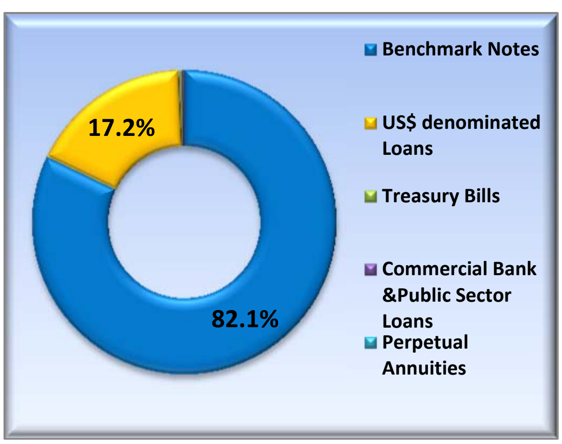
At end-FY2015/16, the domestic debt stock stood at $815.9 billion. This represented a reduction of $239.0 billion or 22.7%, compared to the outturn of $1,054.9 billion at end-FY2014/15. The reduction was due mainly to the Petrocaribe liability management transaction and the negative net flows of benchmark investment notes. During the review period there were also inflows in the domestic debt portfolio, mainly from the issuance of benchmark investment notes. The impact of the decrease was offset by currency movements in favour of the United States dollar and upward movements in the Consumer Price Index (CPI), which resulted in increases in the foreign currency-denominated and the inflation-linked debt, respectively. The profile of the domestic debt, based on loan category, is shown in **Table 1** above. The proportion of domestic debt relative to total debt declined from 51.7% at end-March 2015 to 39.4% at end-March 2016.

Table 1: Profile of the domestic debt stock based on loan category (in millions of Jamaica dollars) at end-March 2015 at end-March 2016

Loan Category	**End-March 2015**	**End-March 2016**	
	$	**$**	**% Change**
Benchmark Notes	866,000.09	809,219.25	-6.56
US$ Denominated Loans	181,893.45	-	-100.00
Treasury Bills	4,000.00	4,000.00	0.00
Commercial Bank & Public Sector Loans	3,017.42	2,729.08	-9.56
Perpetual Annuities	0.15	0.15	0.00
TOTAL	**1,054,911.11**	**815, 948.48**	**-22.65**

Source: Ministry of Finance and the Public Service

Figure 5: Domestic debt stock based on loans category at end-FY2014/15



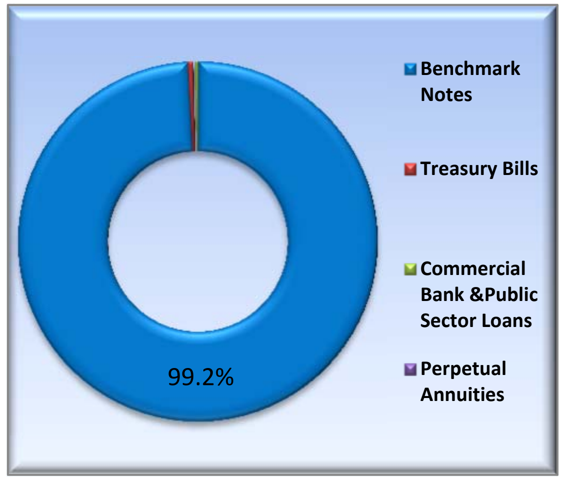
Source: Ministry of Finance and the Public Service

At end-March 2015, the portfolio comprised Jamaica dollar and US dollar benchmark investment notes, US dollar-denominated loans, Treasury bills, Commercial Bank and Public Sector loans, Perpetual annuities and Other loans. These continued to represent a share of the portfolio at end-March 2016. The US dollar-denominated loans category was effectively removed on repayment of the liabilities under the Petrocaribe Energy Cooperation Agreement in July

2015. This contrasted with FY2014/15 when the category accounted for the second largest share of the portfolio (**see Figure 5**). Despite the change in the proportion of the composition of domestic debt, based on loan category, benchmark notes accounted for the majority of the portfolio over the review period, (**see Figure 6**).

As a result of the 22.7% decrease in the domestic debt stock and an increase in nominal GDP by 4.4%, domestic debt-to-GDP decreased by 17.5 percentage points from 67.5% to 50.0%.

Figure 6: Domestic debt stock based on loans category at end-FY2015/16



Source: Ministry of Finance and the Public Service

CURRENCY COMPOSITION

The outstanding domestic debt continued to be denominated in Jamaica dollars and US dollars at end-FY2015/16 (see **Table 2**). As shown in **Figure 7** below, 91.4% of the domestic debt was denominated in Jamaica dollar and 8.6% in United States dollar at end-FY2015/16. This is a significant change from the 75.7% and 24.3% reported for the respective currencies at the end of the previous fiscal year (**see Figure 8**).

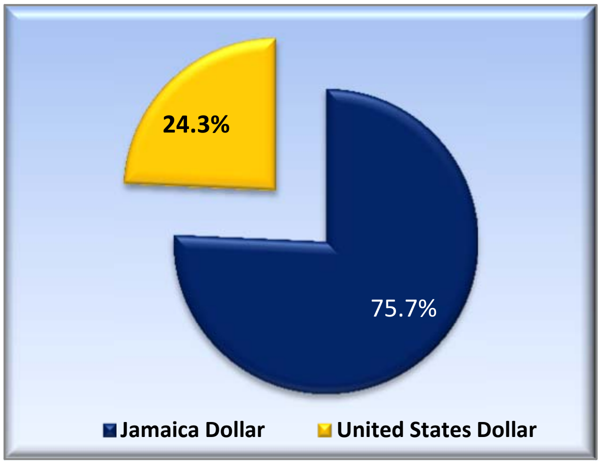
Table 2: Currency composition of the domestic debt (in millions of Jamaica dollars)

	FY2014/15	FY2015/16	Difference
Jamaica dollar	798,717.45	745,527.78	53,189.676
United States dollar	256,193.66	70,420.70	185,772.96
Total	1,054,911.11	815,948.48	238,962.63

Source: Ministry of Finance and the Public Service

During the review period, the nominal values of both the US dollar-denominated debt and the local currency debt decreased. The negative net flows resulted in a significant change in the portfolio and further aligned the currency composition in favour of local currency.

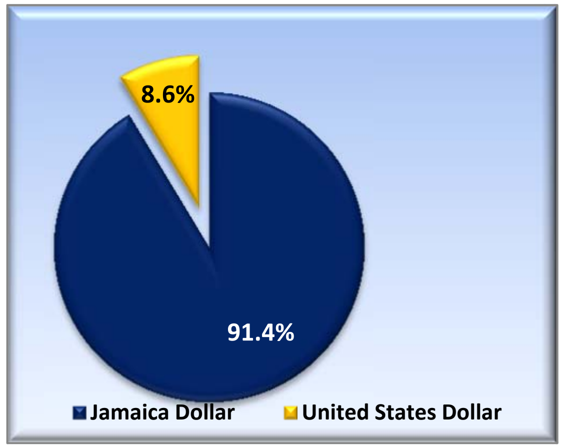
Figure 7: Domestic Debt Currency Composition at end-FY2014/15



Source: Ministry of Finance and the Public Service

The majority of the US dollar outflows were repayments made under the Petrocaribe liability management operation while the local currency outflows were due to the repayment of benchmark notes. As a result of the greater outflow of US dollar debt, the proportion of the portfolio denominated in Jamaica dollar increased.

Figure 8: Domestic Debt Currency Composition at end-FY2015/16



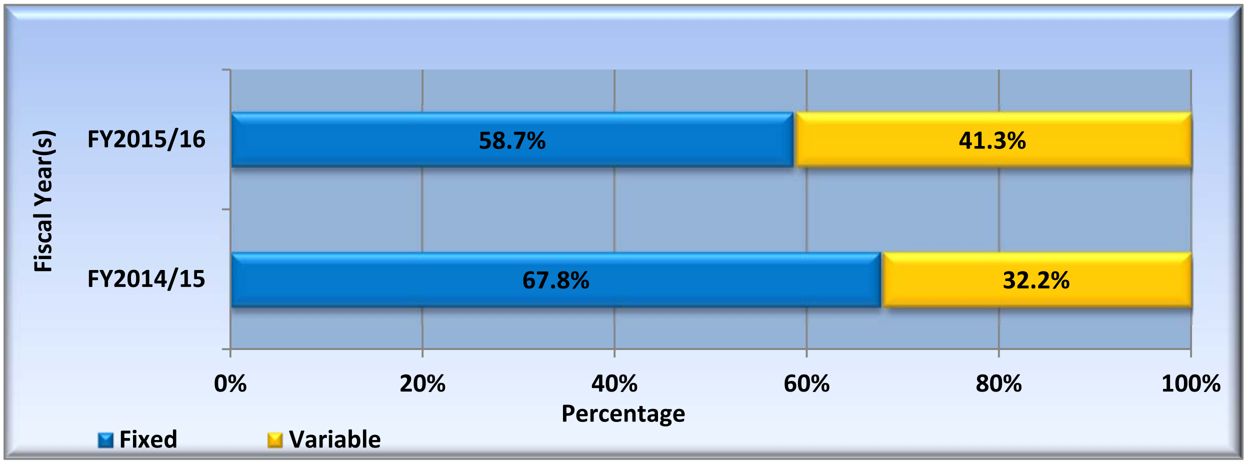
Source: Ministry of Finance and the Public Service

In FY2015/16, the Jamaica dollar depreciated by 6.1% vis-à-vis the US dollar. Due to the fact that the share of foreign currency debt in the domestic portfolio was significantly reduced, and that the rate of depreciation was relatively low, exchange rate movements had a marginal impact on the domestic portfolio.

INTEREST RATE STRUCTURE

At end-FY2015/16, the fixed-rate portion of the domestic portfolio decreased by 9.3 percentage points from 68.0% to 58.7%. This was due to the redemption of several fixed-rate benchmark notes and fixed-rate loans from the PetroCaribe Development Fund (PCDF) under the Petrocaribe liability management transaction. The combined total of these transactions was an outflow of $267.5 billion of fixed-rate debt. The subsequent inflows arising from the issuance of fixed-rate bonds in the domestic bond market was insufficient to significantly affect the interest rate structure, as the issuance amount was $15.0 billion. Over the review period, there was also a marginal reduction of $0.2 billion in variable-rate debt.

Figure 9: Interest rate structure of the domestic debt (end-FY2014/15 and end-FY2015/16)



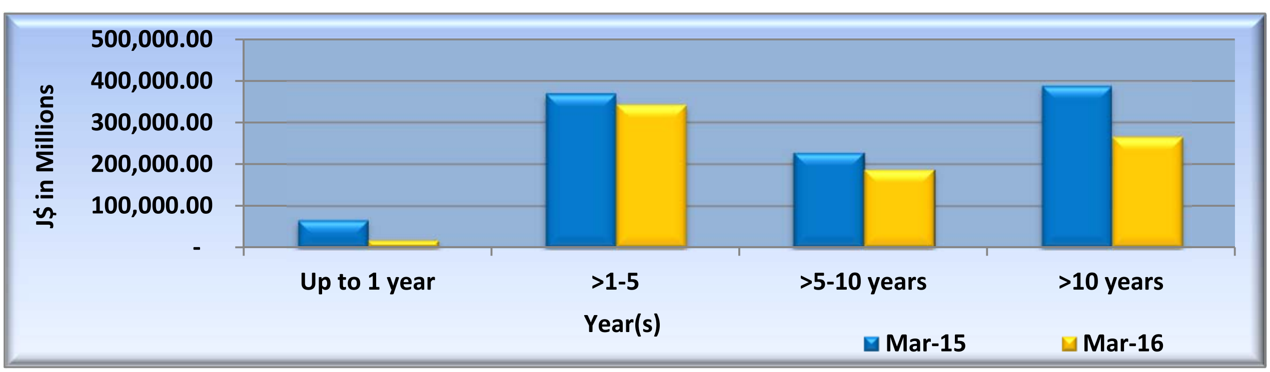
Source: Ministry of Finance and the Public Service

MATURITY STRUCTURE

At end-FY2015/16, the maturity structure displayed reductions in all segments when compared to end-FY2014/15 (see **Figure 10**). Debt scheduled to mature in one year or less, representing 1.3%, continued to account for the smallest share of the portfolio. Debt scheduled to mature in 1-5 years accounted for 43.0% and the largest share of the outstanding domestic debt. As at end-March 2016, the combined total that will fall due in the two segments marginally increased to 44.3% when compared to 41.5% at end-March 2015.

The redemption of the PCDF debt resulted in reductions in the longer maturity segments of 1-5 years, 5-10 years and greater than 10 years. The 1-5 year category was least affected by this transaction as a small proportion of the PCDF debt had remaining maturities of less than 5 years.

Figure 10: Maturity structure of the domestic debt at end-FY2014/15 and end-FY2015/16



Source: Ministry of Finance and the Public Service

EXTERNAL DEBT

Table 3: Profile of the External debt stock at end-FY2015/16 (in millions of dollars)

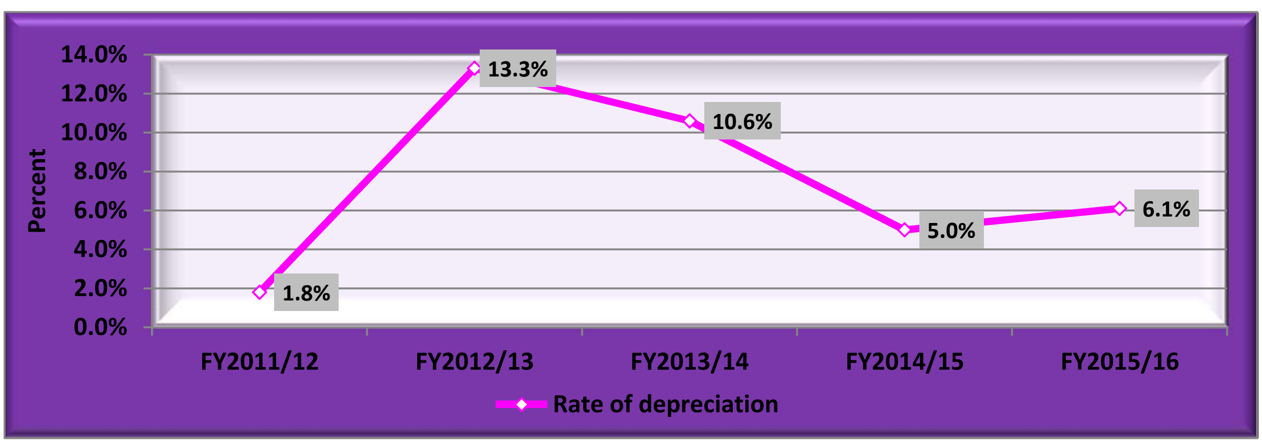
Fiscal Year	USD	JMD
FY2014/15	8,577.5	986.8
FY2015/16	10,265.4	1,252.8

At end-March 2016, the stock of public and publicly-guaranteed external debt amounted to US$10.3billion or $1,252.8 billion. This represented an increase of 27.0% in Jamaica dollar terms when compared to $986.8 billion recorded at the end of March 2015. As a percentage of GDP, the external debt stock represented 76.8% at the end of FY 2015/16, compared to 63.1% at the end of FY 2014/15.

The Government's issue of US$2.0 billion in the ICM and the depreciation of the Jamaica Dollar contributed to the increase in external debt. Of the US$2.0 billion issuance, US$1.5 billion was used to finance the purchase of US$3.2 billion of debt owed to Petroleos de Venezuela S.A. (PDVSA). The remaining US$500.0 million was used for budgetary support. This increase was somewhat offset by repayments over the course of the fiscal year, most notably the maturity of a US$300Mn 9% Bond due 2015, and the execution of buyback operations.

The rate of depreciation of the Jamaica dollar against other major currencies over a five-year review period has had a significant impact on the stock of external debt in Jamaica dollar terms see **Figure 11**. Depreciation added approximately $71.8 billion or 7.3% to the external debt stock.

Figure 11: Rate of depreciation of the Jamaica dollar vis-à-vis the US dollar between FY2011/12 to FY2015/16



Source: Ministry of Finance and the Public Service

Notwithstanding, external debt continues to remain attractive to the GOJ despite the risks associated with foreign currency-denominated debt for several reasons, including the inability of the domestic market to adequately satisfy the Government's financing needs and the low rates associated with loans from official sources.

CREDITOR COMPOSITION

The creditor composition of the external debt consists of private creditors and official creditors. The private creditor category comprises commercial banks, bondholders and suppliers credit, while the official creditor category is made up of bilateral and multilateral lenders.

At end-FY2015/16, private creditors continued to be the predominant creditor category constituting 58.3%. Bondholders represented 95.1% of the private creditor category and 55.4% of the total external portfolio. This is an increase over the previous fiscal year, when bondholders represented 92.4% of the total private creditor category. The dominance of private creditors is reflective of Jamaica's continued access to the ICM for financing that is readily available in large volumes.

Table 4: External Debt Creditor Composition FY2014/15-FY2015/16 (Millions of US dollars)

	FY2014/15	FY2015/16
Total External Debt	**8,577.5**	**10,265.4**
Official Creditors	**4,132.6**	**4,281.8**
Bilateral	810.1	751.0
Multilateral	3,322.5	3,530.8
IDB	1,419.6	1,571.3
IBRD	823.9	817.7
IMF	583.2	661.9
Other	495.8	479.9
Private Creditors	**4,444.9**	**5,983.6**
Commercial Banks	323.9	285.4
Bonds	4,107.5	5,687.8
Suppliers Credit	13.5	10.4

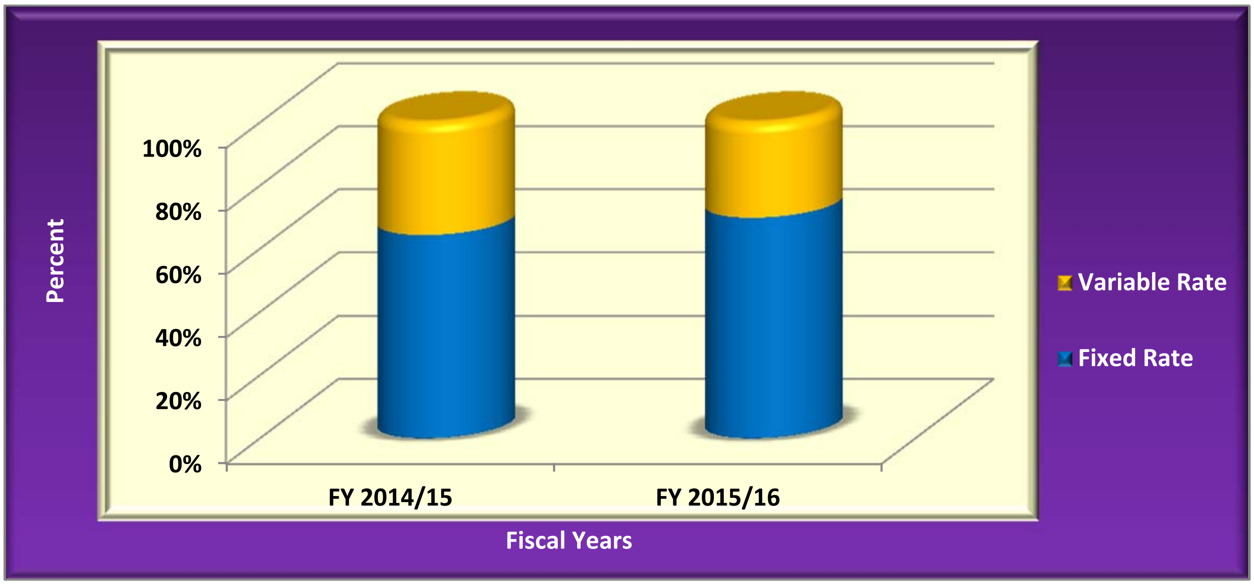
Source: Ministry of Finance and the Public Service

INTEREST RATE STRUCTURE

Consistent with the debt management strategy objective of maintaining an appropriate mix of fixed-rate and floating-rate debt, a significant proportion of the external debt has been contracted on a fixed-rate basis.

At end-FY2015/16, the proportion of variable-rate debt showed a decline of 5.5 percentage points from 35.7% in the previous fiscal year to 30.2%. Attributable to the decline in the variable rate component of the debt in FY 2015/16 is the issuance of US$2.0 billion global bonds in July 2015, which resulted in the proportion of fixed-rate debt moving from 64.3% at end-March 2015 to 69.8% at end-March 2016.

Figure 12: Interest Rate Structure of External Debt FY2014/15-FY2015/16



Source: Ministry of Finance and the Public Service

CURRENCY COMPOSITION

The external debt portfolio is denominated in the major convertible currencies. At end-March 2016, external loans continue to be denominated primarily in US dollars, and as a result, there is a high level of exposure to movements in the exchange rate between the Jamaica dollar and the US dollar. External loans are also denominated in Euros, Chinese Yuan Renminbi and Japanese yen. The remaining currencies are categorized as *Other* and represent less than 1.0% of the total external portfolio.

At end-FY2015/16, US dollar loans represented 95.7% of the external portfolio, an increase of 1.2 percentage points over the previous fiscal year.

Table 5: External Debt Currency Composition in Percentages at end-FY2014/15 to end-FY2015/16

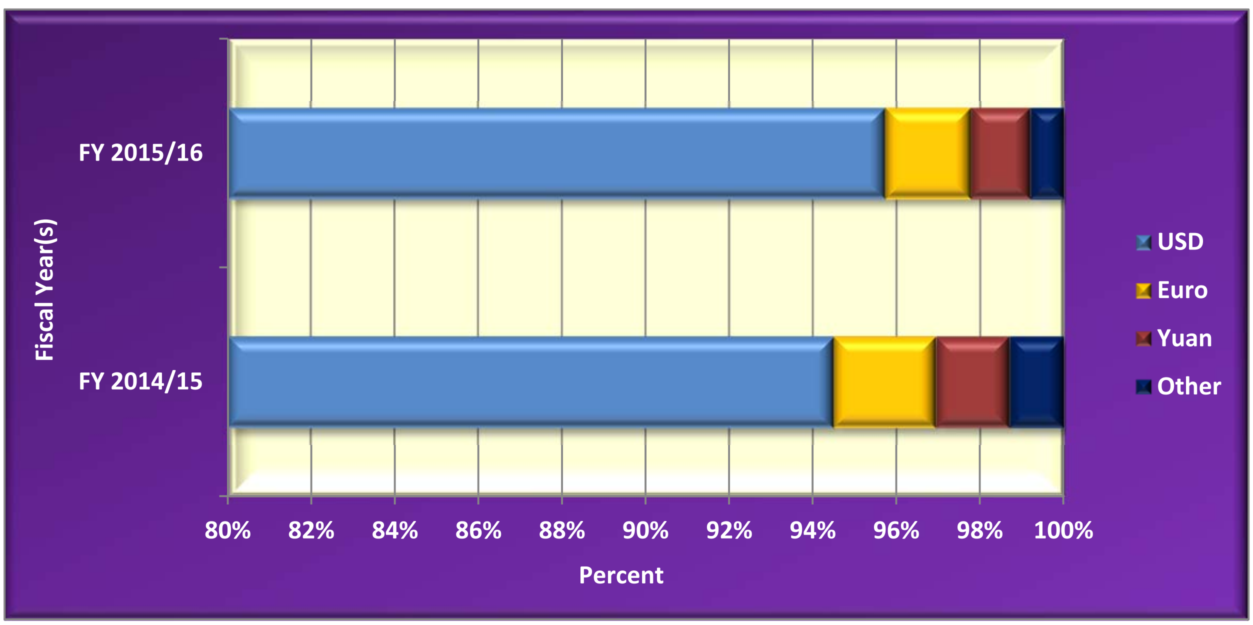
	FY2014/15	FY2015/16
United States Dollar	**94.5**	**95.7**
Euro	**2.5**	**2.1**
Yuan Renminbi	**1.8**	**1.4**
Other	1.2	0.8

Source: Ministry of Finance and the Public Service

Over the review period, the value of Euro-denominated loans declined, falling from 2.5% of the value of the external portfolio at end-March 2015 to 2.1% by end-March 2016 due to maturities of euro-denominated loans and the contracting of new US dollar-denominated loans.

The Yuan Renminbi is the third major currency in the external portfolio. At end-FY 2015/16, the proportion of Yuan Renminbi-denominated loans represented 1.4%, a marginal decline of 0.4 percentage points from FY2014/15.

Figure 13: External Debt Currency Composition at end-FY2014/15 to end-FY2015/16

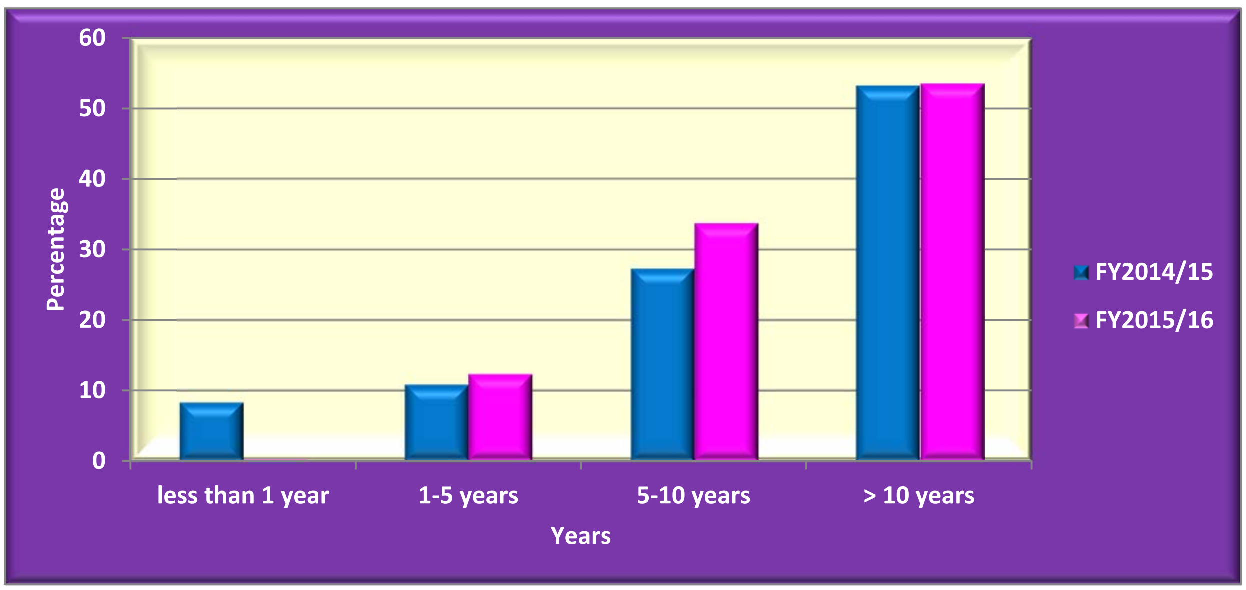


Source: Ministry of Finance and the Public Service

MATURITY STRUCTURE

Of the total external debt outstanding at end-March 2016, maturities in the 10-year and over category increased marginally to 53.6% compared with 53.3% at end-March 2015. The most significant change in the maturity structure occurred in the 5-10 year category where there was an increase of 6.4 percentage points moving from 27.4% at end-March 2015 to 33.8%, due primarily to the amortization profile of the US$800.0 million bond issued in FY2014/15, on which repayment commences in FY2023/24. Maturities falling due in the 1-5 years category increased to 12.4% from 10.9% at end-March 2015, while maturities of less than 1-year represented 2.5% of the portfolio, a decline of 5.9 percentage points over end-March 2015, and an indication that the FY2016/17 external maturities do not represent a significant proportion of the external debt.

Figure 14: Maturity Profile of External Debt Currency at end-FY2014/15 to end-FY2015/16

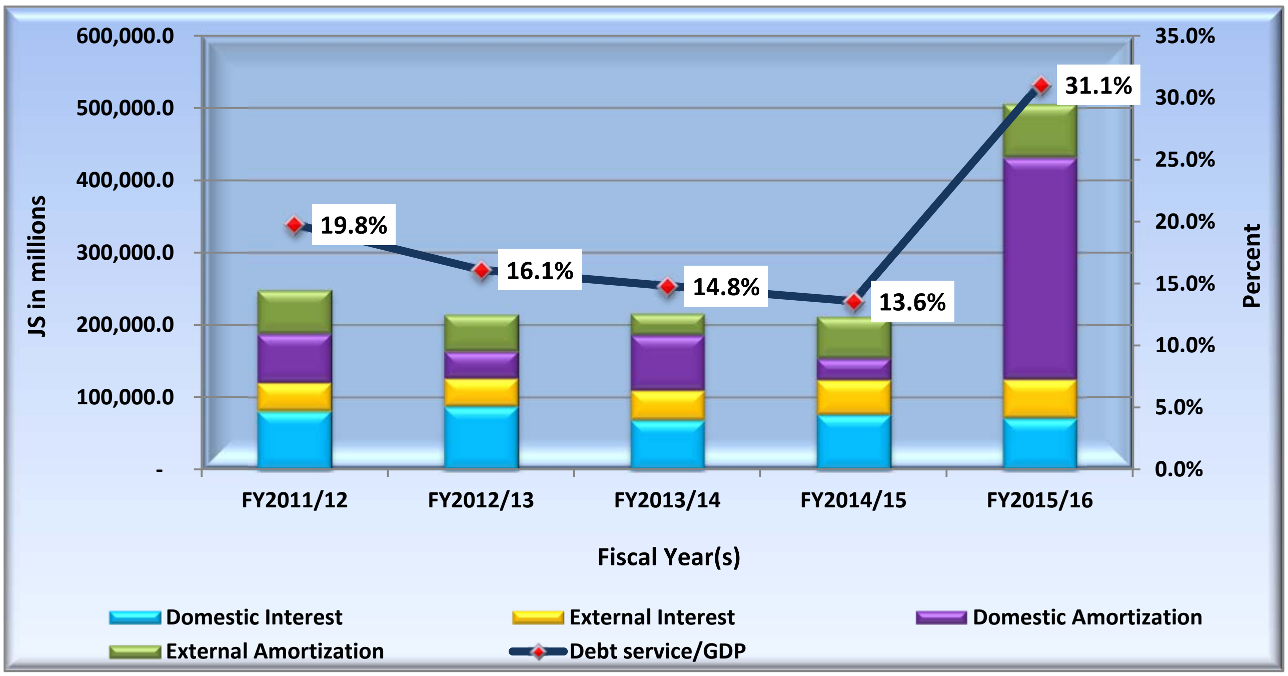


Source: Ministry of Finance and the Public Service

DEBT SERVICE

As seen in **Figure 15**, total debt service as a percentage of GDP trended downwards between FY2011/12 and FY2014/15, due mainly to lower amortization on an annual basis. The ratio fell from 19.8% at end-FY2011/12 to 13.6% at end-FY2014/15. However, total debt service costs which was 31.1% of GDP, were unusually high during FY2015/16. This was due to the early repayment of debt owed to the PetroCaribe Development Fund by the Government of Jamaica.

Figure: 15: Total, domestic and external debt service for FY2011/12 to FY2015/16



Source: Ministry of Finance and the Public Service

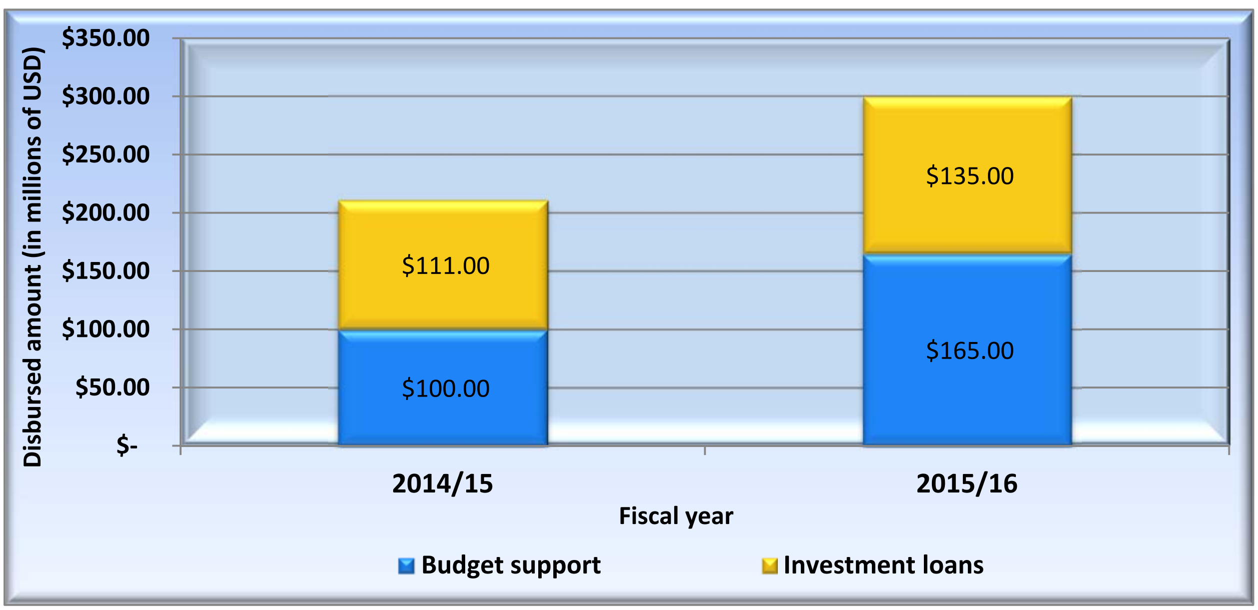
MONITORING AND DISBURSEMENT

LOANS

An objective of sound public debt management is ensuring that the Government's financing cost is kept low and stable. An effective debt office must adequately and actively manage loan inflows taking into consideration the movements in interest and exchange rates. The timing of the drawdown must coincide with planned expenditures since the drawdown increases the debt stock and the debt-to GDP ratio whether or not funds are not being utilized. It is therefore necessary to manage borrowing and debt service costs by minimizing costly idle balances while maintaining a high rate of utilization. Guided by this key objective, the DMB is charged with the responsibility of approving disbursements on multilateral and bilateral loans.

In FY2015/16, the GOJ secured three loans with an aggregate total of US$205.0 million, of which US$164.0 million or 80.0% has been disbursed. Two of the loans were for budget support and the other an investment loan for social welfare. This compared to FY2014/15 with new loans totaling US$287.0 million in committed amounts and a disbursed amount of US$105.0 million or 36.6%.

Figure 16: Disbursements for FY2014/15 and FY2015/16



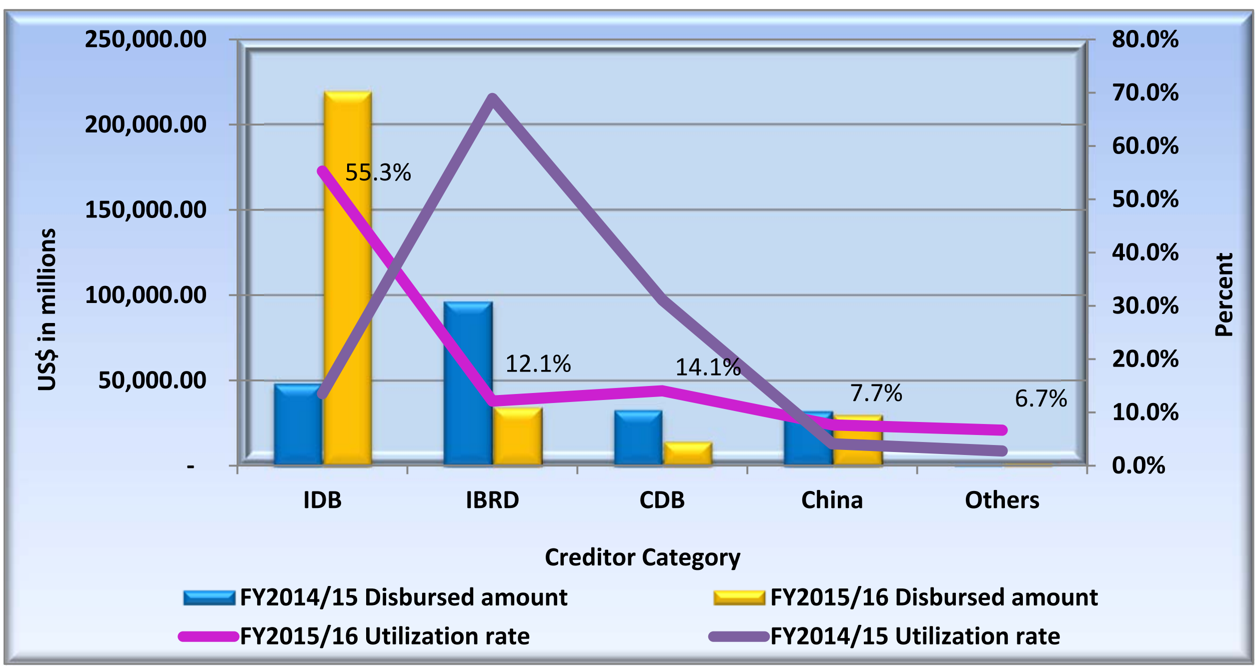
Source: Ministry of Finance and the Public Service

Over the review period, total disbursements for bilateral and multilateral loans increased to US$300.0 million from US$211.0 million at end FY 2014/15, an increase of US$89.0 million or

42.2%. Of this amount, US$165.0 million was for budget support and US$135.0 million for investment projects. This represented an increase of US$65.0 million and US$24.0 million respectively, over the previous fiscal year. Disbursements on new loans accounted for 54.7% of total disbursements.

The Inter-American Development Bank (IDB) and the International Bank for Reconstruction and Development[2] (IBRD) continued to be Jamaica's major development partners. The IDB recorded the highest loan disbursements of US$220.0 million or 73.3% of total inflows with majority disbursements for budget support maintaining its position as Jamaica's leading disbursement partner. The institution's disbursements included an amount of US$65.0 million in investment loans. Inflows from the IBRD amounted to US$34.6 million which was primarily for education, social welfare, youth employment and economic growth projects, while disbursements from the Export-Import Bank of China totaled US$29.9 million for the continuation of infrastructural development.

Figure 17: Disbursement utilization rate



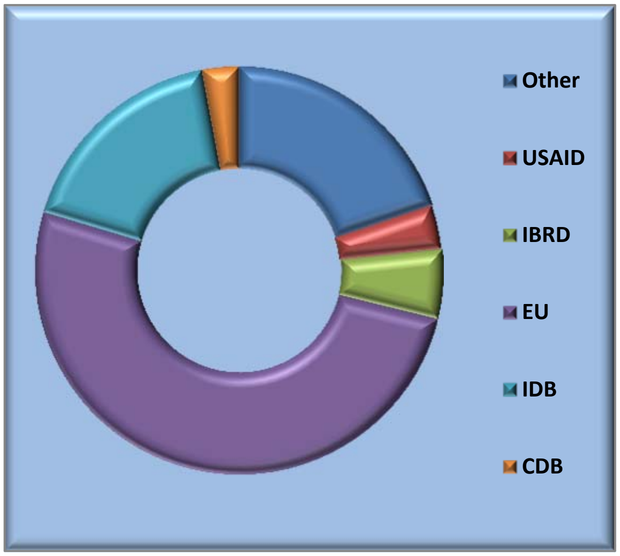
Source: Ministry of Finance and the Public Service

The 42.2% increase in total loan disbursements resulted in an improvement in the utilisation rate by 9.9%, which has effectively reduced commitment charges paid on undisbursed balances. The

[2] The IBRD is also referred to as the World Bank

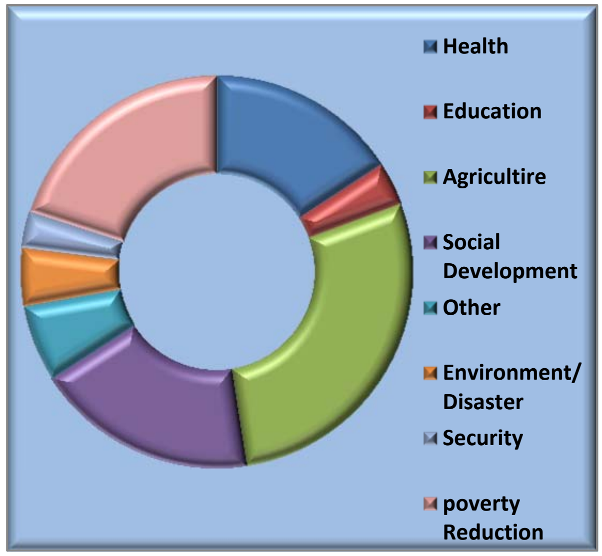
utilisation rate for the reporting period was 25.1%. Additionally, there were cancellations totaling US$19.4 million which reduced borrowing costs.

Figure 18: Disbursement by source of fund



Source: Ministry of Finance and the Public Service

Figure 19: Disbursement by sector



Source: Ministry of Finance and the Public Service

GRANTS

Grants are non-reimbursable funds that support technical cooperation and other programmes. These programmes are expected to boost economic growth, reduce social inequalities and improve standard of living conditions.

Jamaica continued to be the beneficiary of technical assistance from bilateral and multilateral partners. At end-FY2015/16, grant funding totaled US$46.2 million, with the European Union being the largest donor. This represented an increase of US$2.1 million (4.8%) relative to FY2014/15. The inflows were primarily for the health sector, social security and the agricultural sectors, as well as for poverty reduction.

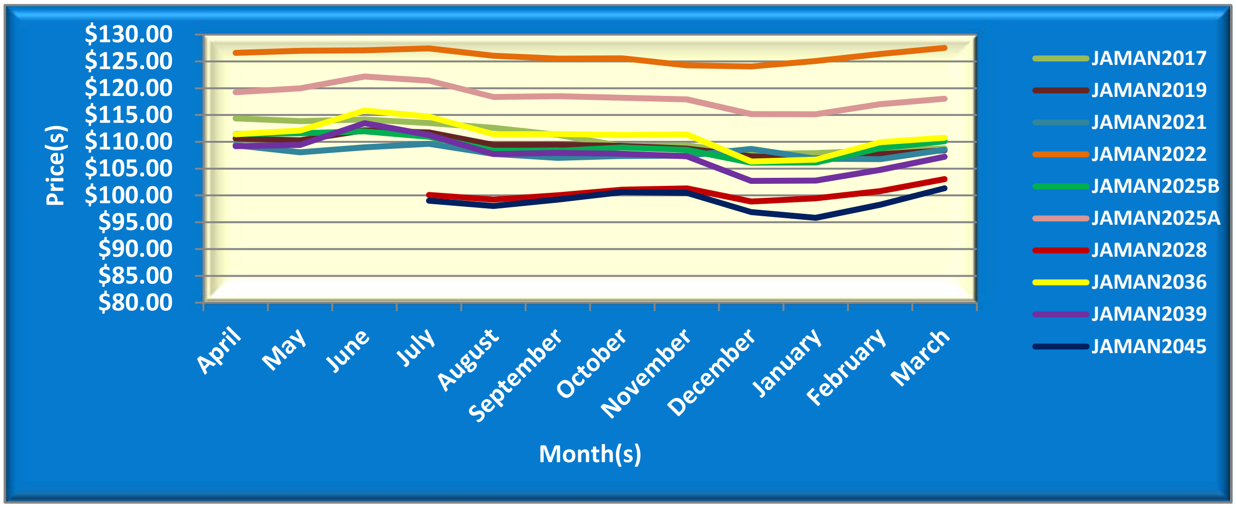
REVIEW OF TRADING LEVELS FOR GOJ GLOBAL BONDS

Throughout FY2015/16, the performance of the GOJ global bonds on the secondary market trading platforms was stable, despite the general bearish conditions in emerging markets (EM) and by extension the global bond markets. Globally, yields increased between 20 to 30 basis points at most segments of the yield curves in the United States and United Kingdom bond markets. The performance of EM bonds was even worse as the slowdown in the Chinese economy and the economic crisis in Brazil created fear of a decline in global growth. As a result, investor interest in EM's debt declined over the period. This economic downturn resulted in a decrease in the price of debt instruments: on average, the majority of EMs' sovereign bonds yielded 7.0% or higher.

Despite the instability created by an expectation of further decline in EM, and the subsequent increase in risk aversion among investors, the GOJ global bonds remained one of the most demanded debt assets among EM countries, as investors sought to acquire the most stable existing credits. Jamaica's improving macroeconomic indicators under the IMF Programme and upgrades by all three rating agencies led to increased confidence among investors. As a result, Jamaica's sovereign bonds outperformed better-rated countries' bonds on the trading platform. Yields for bonds of similar maturities for higher- rated EM sovereigns such as the Dominican Republic and Brazil, increased by an average of 37 and 140 basis points, respectively, while the yields for Jamaica bonds increased by an average of 17 basis points.

Conversely, the prices for seven of the ten Jamaica sovereign bonds moderately declined on the trading platform during the financial year. However, all 10 bonds comprising Jamaica's external bond portfolio were traded at premium levels at end-March 2016. Of note, both new JAMAN 2028 and JAMAN 2045 that entered the trading platform at end- July 2015 at average prices of 100.09 and 99.02, respectively, were traded above par at higher average prices of 103.03 and 101.34, respectively at the financial year-end. Overall, the portfolio experienced an average decline of 0.63 percentage point in prices.

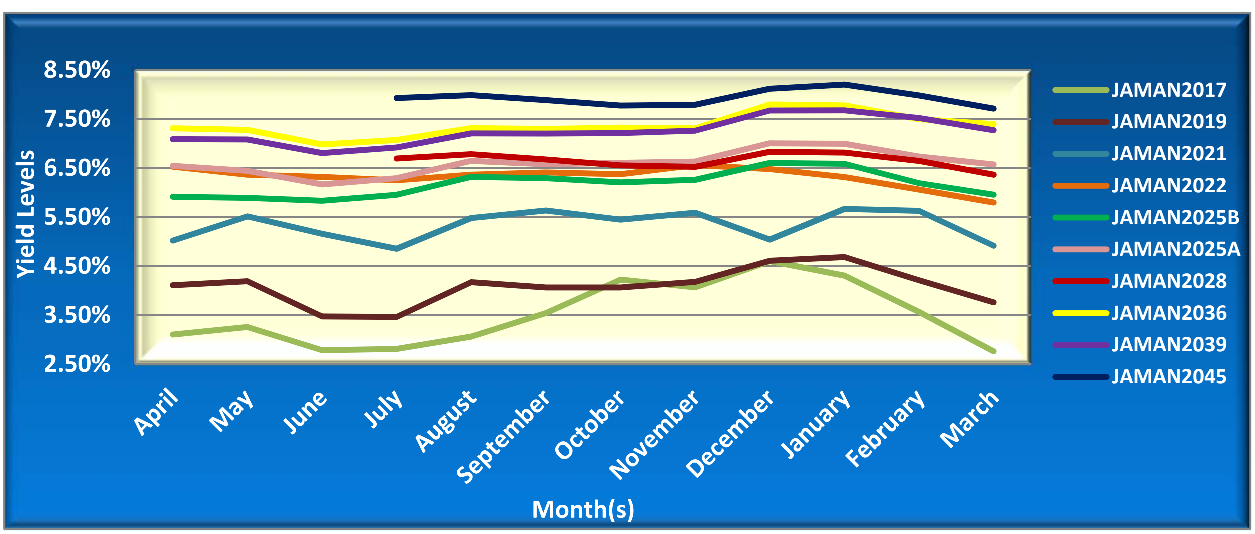
Figure 20: Trading Levels of GOJ Global Bonds in FY2015/16



Source: Ministry of Finance and the Public Service

Additionally, despite the decline in secondary-market activities in EMs, the bid and ask price spreads for Jamaica's global bonds tightened over the spreads recorded for the previous fiscal year, with an average variation of between 0.71-1.94 compared to 2.00-2.50 in FY 2014/15. The tight spread levels indicate that the trading volume in the bonds was relatively high, with the lower end of the range indicating investors' high demand for Jamaica's bonds relative to supply. In addition, the robust trading of the bonds facilitates transparency and price discovery and ensures that the prices and yields remain competitive. The strong sentiment among investors is a signal of the country's significant progress under the Economic Reform Programme.

Figure 21: Yield Levels of GOJ Global Bond in FY2015/16



Source: Ministry of Finance and the Public Service

CREDIT RATINGS

Investopedia describes a sovereign credit rating as “the doorway into a country's investment atmosphere.” Sovereign credit ratings[3] are integral to the analysis of many institutional investors when deciding to invest abroad as it signifies a country's overall ability to provide a secure investment environment. Credit ratings provide financial transparency and demonstrate the country’s credit standing, thereby providing the investor with an immediate understanding of the risk level associated with investing in the country and, depending on risk appetite, guide decisions on the choice of country in which to invest.

Jamaica has been reviewed regularly since receiving its first credit rating in November 1999. During FY 2015/16, the country’s creditworthiness was assessed by Moody’s, Standard and Poor’s (S&P) and Fitch Ratings. In May 2015, Moody’s upgraded Jamaica’s government bond rating from Caa3 to Caa2, and also maintained a positive outlook on the country’s Caa2 rating. This was followed by two rating actions from S&P in June and September 2015. The first rating action raised Jamaica’s Long-term Foreign and Local Currency Ratings from ‘B-‘to ‘B’ with a stable outlook, and affirmed the ‘B’ Short-term Rating. The transfer and convertibility assessment was also raised to 'B+' from 'B'. The follow-up rating action in September 2015 followed the issue of a US$2.0 billion bond in July 2015 and affirmed Jamaica’s Long-term and Short-term Foreign and Local Currency ‘B’ ratings with a stable outlook. In February 2016, Fitch Ratings Agency upgraded Jamaica’s Long-term Foreign and Local Currency issue ratings to ‘B’ from ‘B-‘ and revised the outlook to Stable from Positive. The issue ratings on Jamaica’s senior unsecured Foreign and Local-Currency bonds were also upgraded to ‘B’.

The rating upgrades and positive outlook from the three agencies were predicated on:

[3] Credit ratings are assigned based on due diligence, and involve several factors within an economy such as political risk, growth prospects, stability of the financial sector, effectiveness of monetary policy, debt burden (debt-to-GDP) which includes the level of external debt and contingent liabilities. The rating is therefore a good indicator of a country’s willingness and ability to repay debt, and implicitly forecasts the likelihood of default. A country’s general creditworthiness also attracts foreign direct investment and influences the country's borrowing costs.

- Improvement in key macroeconomic indicators including improved inflows of official and other financing, increases in the Net International Reserves, improving balance of payments position and reduced external vulnerabilities;
- Signs of recovery demonstrated by real GDP growth of 1.5% in the third quarter of 2015 over the corresponding period of the prior year and the expectations of continued improvement given major investments such as the North-South Highway, increased capacity in the tourism industry and investments in the port and special economic zones;
- Jamaica's stable democracy and open political system that sustains political stability and policy predictability; and
- Improvement in structural indicators, such as governance, human development, per capita income, and business environment indicators which are better than the 'B' median.

The ratings agencies also noted and commended:

- Jamaica's successful issue of a US$2.0 billion external bond in July 2015, which financed the successful PetroCaribe liability management transaction;
- The Government's efforts at instituting business reforms which have resulted in Jamaica's improved standing in the *World Bank's Doing Business Report 2015*;and
- The continued improvement in external finances.

Table 6: Jamaica's Credit Ratings for FY2015/16

Rating Agency	Category of debt	Rating Action	Prior Rating	Outlook	Last Rating Action
Fitch Ratings	Long term foreign and Local currency issuer Short term foreign	B B	B-/Positive	Stable	February 11, 2016
Standard & Poor's Ratings Services	Long-Term/Short-term Foreign and Local Currency	B/B+	B-/B /Stable	Stable	June 03, 2015
Moody's Investors Service	Government bond rating and Government-related entities	Caa2	Caa3/Stable	Positive	May 28, 2015

Source: Ministry of Finance and the Public Service

As in previous years, the favourable ratings outlook was underpinned by the Government's continued commitment to meeting the challenging fiscal targets over the past two years, strengthening fiscal credibility, placing the Government's debt metrics firmly on a downward trajectory, and successfully concluding ten quarterly reviews by the Fund.

LIABILITY MANAGEMENT OPERATIONS

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, 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's purchase of the Petrocaribe Energy Cooperation debt outstanding at December 2014, the PCDF 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.

During FY 2015/16, the Government repurchased US$14 million of the US$650M 7.875% Notes due 2045 in the secondary market, in keeping with its strategic objective of executing liability management operations to optimize the debt dynamics of the portfolio. The buyback transaction, priced at a discount, contributed to a reduction in the foreign currency component of the debt, foreign currency risk and debt service costs. This represents a part of the Government's efforts to further reduce the debt to achieve the targets[4] set under the Public Debt Management Act and the Fiscal Responsibility Framework. Prudence was exercised in the execution of the

[4] Debt-to-GDP is projected to be no more than 96.0% at end-FY2019/20.

transaction, to ensure proper timing, that the benchmark bond remains liquid and that there were no ensuing distortions of the yield curve.

EMERGING MARKET BOND OF THE YEAR AWARD

The Government of Jamaica's dual-tranche issuance of US$2.0 billion Notes in the International Capital Markets was awarded Emerging Market Bond of the Year by Thomson Reuters Corporation at its fifth annual awards ceremony held in New York, USA on February 10, 2016. The historic issuance in July, 2015 represents the largest issuance and lowest coupon ever achieved by Jamaica. The transaction was executed in an environment that was characterized by volatility, geopolitical tension, uncertainty in the direction of interest rates and low commodity prices.

The Thomson Reuters awards ceremony recognizes exceptional performance of bond houses, sovereigns and corporations, covering a wide range of financial transactions in the international capital markets during a calendar year.

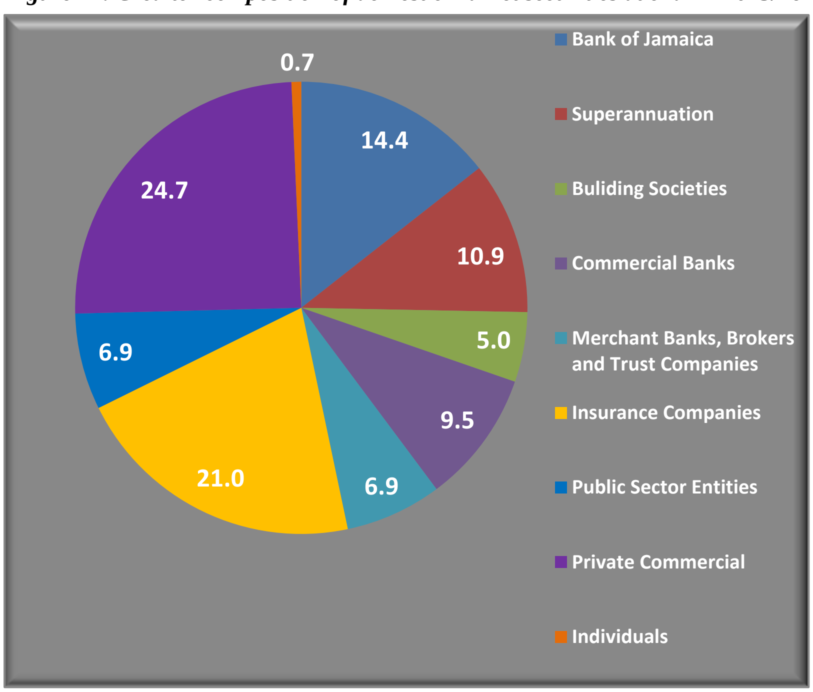
Jamaica was lauded for the execution of the transaction within the context of the prevailing challenging market conditions. The transaction included the issuance of US$1.35 billion 6.75% Note due April 28, 2028 and US$650.0 million 7.875% Note due July 28, 2045. The issuances were two times oversubscribed with participation from a wide geographic and institutional investor base.

INVESTOR BASE

The composition of any sovereign's investor base plays a significant role in ensuring a steady demand for securities and competitive pricing of bonds. This is critical to governments' funding strategy under a wide range of market conditions as well as reducing risks in the public debt portfolio. The holders of GOJ securities continued to be diverse with the investor base including commercial banks, insurance companies, building societies, merchant banks, brokers and trust companies as well as private commercial companies, pension funds, public sector and individuals. Holdings of Government securities are analysed by loan type, maturity structure and interest rate preferences for each category of investor.

At end-FY2015/16, marketable securities accounted for 99.7% of the domestic debt portfolio, an increase of 17.2 percentage points over the 82.5% recorded at end-FY2014/15. As with the previous year, Benchmark Investment Notes (BIN) constituted 99.5% of the marketable securities, while outstanding Treasury bills represented the remaining 0.5%. Outstanding non-marketable domestic debt accounted for 0.3% of the portfolio, and, of this share 20.7% was owed to commercial banks and 79.3% to other creditors. Up until end-July 2015, the PCDF constituted a large share of GOJ's outstanding non-marketable domestic debt; however, that segment was removed from the portfolio with the execution of the Petrocaribe liability management transaction.

Figure 22: Creditor composition of domestic market securities at end-FY2015/16



Source: Ministry of Finance and the Public Service

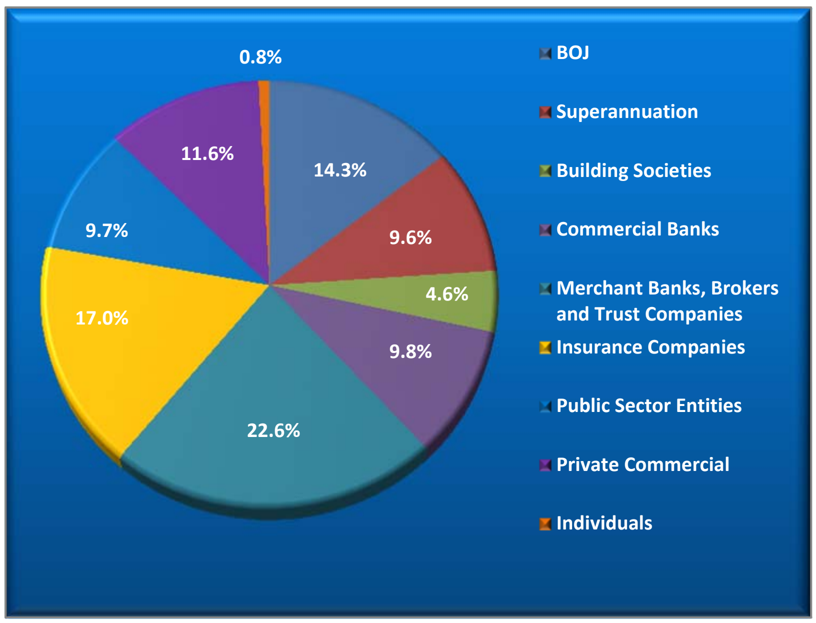
In February 2016, FR 7.25% BIN 2016 in the amount of $60.9 billion matured and the GOJ took the strategic decision to access a limited amount of $15.0 billion of the resulting liquidity, by issuing three fixed-rate benchmark bonds with short-, medium- and long tenors, to re-activate the domestic market. Additionally, in an effort to reform the retail repo market, the Jamaica

Central Securities Depository was appointed as the Trustee/Custodian for securities held by merchant banks, brokers and trust companies in retail repo transactions. This is a structural benchmark under the EFF.

These activities resulted in significant changes in the proportion of investors' holdings in marketable securities when compared to end-FY2014/15 (S**ee Figures 22 and 23**). Private commercial replaced merchant banks, brokers and trust companies as the largest holder segment, accounting for 24.7% of the total domestic securities, followed by insurance companies with 21.1%, while the individuals segment remained the smallest holder with 0.7%. The merchant banks, brokers and trust segment had the most significant movement, declining by 15.7 percentage points to 6.9% from the 22.6% recorded at end-FY2014/15.

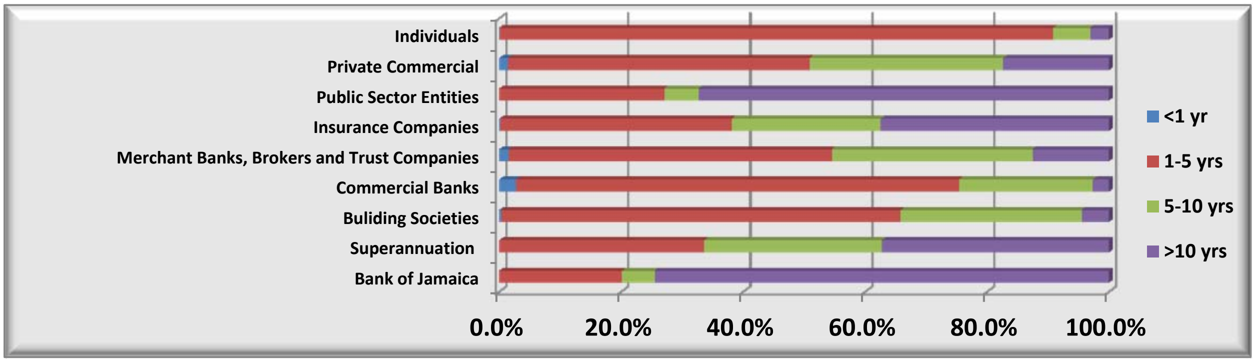
As seen in **Figure 24**, commercial banks, insurance companies and private commercial categories held mostly securities that had remaining maturities of less than five years. The portfolios of building societies, commercial banks and individuals are held mostly in maturities greater than five years and less than ten years. Notably, Bank of Jamaica and public sector entities held the majority of their portfolios in securities with maturities greater than 10 years.

Figure 23: Creditor composition of domestic market securities at end-FY2014/15



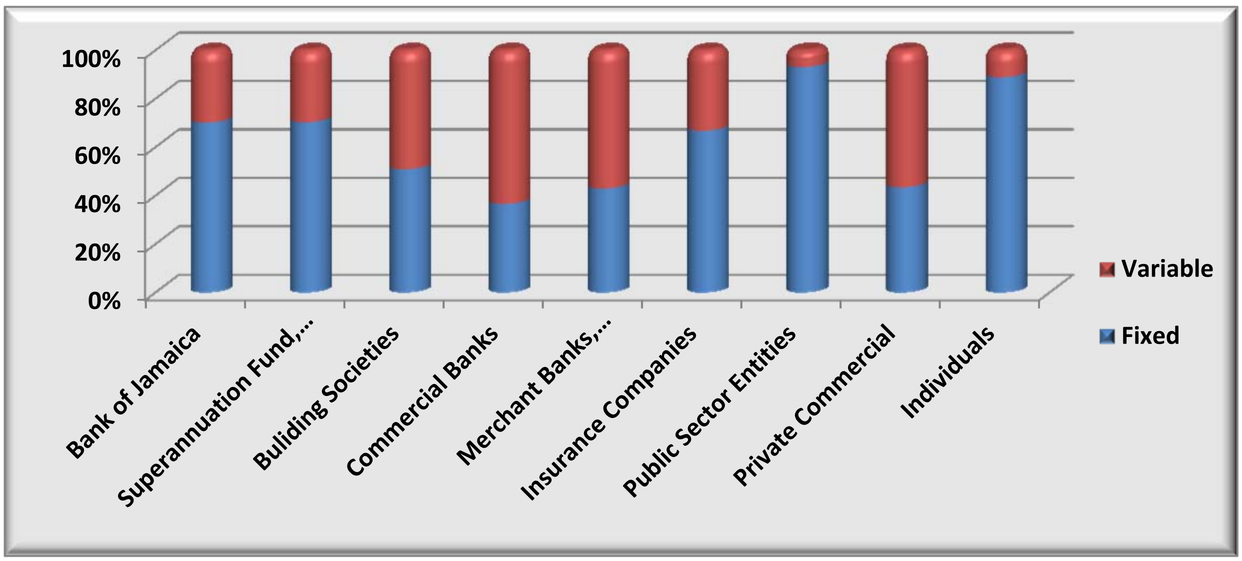
Source: Ministry of Finance and the Public Service

Figure 24: Maturity structure of domestic market securities-based on creditor composition at end-FY2015/16



Source: Ministry of Finance and the Public Service

Figure 25: Interest rate structure of domestic market securities-based on creditor composition



Source: Ministry of Finance and the Public Service

All holder categories except commercial banks, merchant banks, brokers and trust companies and private commercial showed a preference for holding fixed-rate securities in their portfolios. Notably, public sector entities, individuals and Bank of Jamaica held 93.1%, 88.9% and 70.2%, respectively, of their portfolios in fixed-rate instruments.

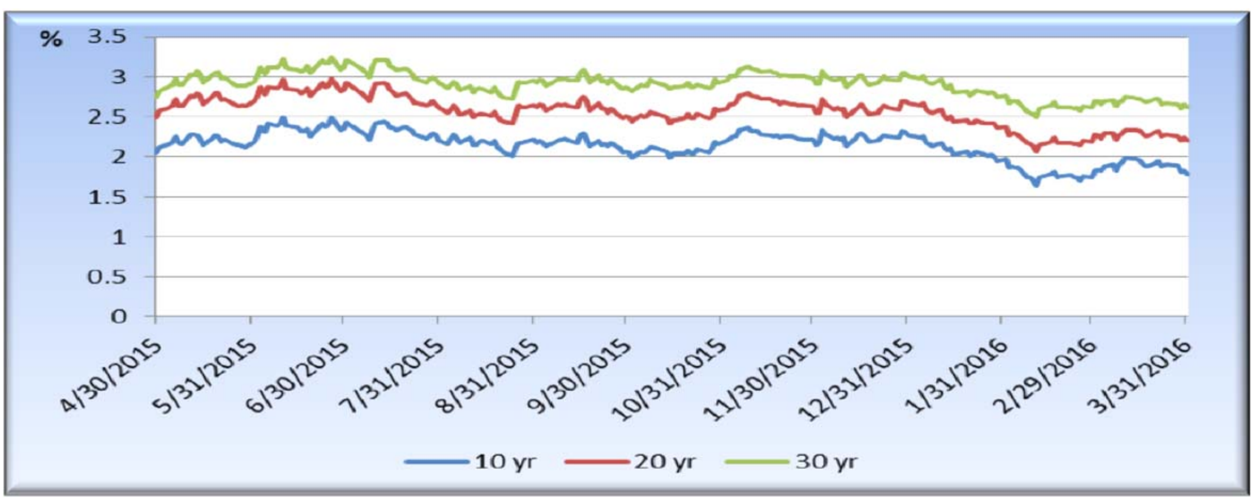
US TREASURY RATES AND LIBOR

Yields on US Treasury Bonds continued the trend set during FY2014/15, with yields on the 1- and 6-month US Treasury bills remaining relatively flat for the first half of the year. At the beginning of the year, the rates were 0.02%p.a. and 0.12%p.a., respectively, and steadily increased reaching highs of 0.13%p.a. and 0.36%p.a. by November 2015. The gradual increase in the rates was indicative of investors' expectations for an increase in the Fed rate. Consequent on the increase in the Fed rate in December 2015, rates continued along the upward path, peaking at 0.29%p.a. in March and 0.57%p.a. in December for the 1-month and 6-month Treasury bills, respectively.

Figure 26: 1 Month and 6 Month US Treasury Bill Yields for April 2015 – March 2016

Source: US Department of the Treasury

Figure 27: 10 Yr, 20 Yr and 30 Yr US Treasury Bill Yields for April 2015 – March 2016



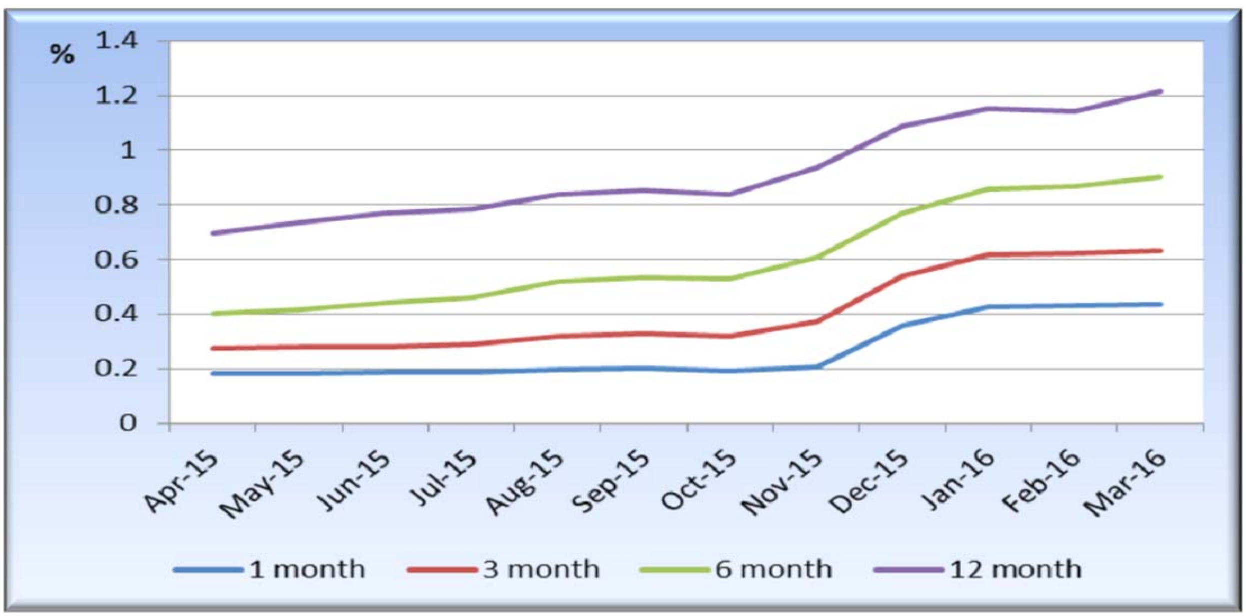
Source: US Department of the Treasury

Movements in the longer-dated instruments were not in tandem with the short-term instruments. Yields on 10-, 20- and 30-year notes gradually increased over the same period, showing the sharpest increase in June 2015, at 2.50%p.a., 2.96%p.a. and 3.22%p.a. respectively; however, thereafter rates steadily declined settling at 1.88%p.a., 2.26%p.a. and 2.60%p.a. for 10-, 20- and 30-year instruments, respectively as at March 2016.

The trend of steadily-increasing US LIBOR rates that prevailed during FY2014/15 continued into FY2015/16. US LIBOR consistently increased month over month throughout the fiscal year, with rates increasing by over 100.0% at the end of the year compared to those prevailing at the beginning of FY 2015/16. The 6-month was 0.91% at end-March 2016

The movements in the rates reflected the improvements in the key indicators of the US economy, the appreciation of the US dollar against other major currencies and the increase in the Fed fund rates.

Figure 28: US LIBOR Rates for April 2015 – March 2016



Source: www.fedprimerate.com

INTERNATIONAL FINANCIAL MARKET ACTIVITIES

Introduction

During FY2015/16, global economic activity was anaemic. Near-term risks to the global economy, including increased financial market volatility and asset price shifts (i.e. prices of stocks, bonds, derivatives, real estate and other assets) prevailed, while lower output growth remains a medium-term risk in both advanced and emerging market economies. Activities in international financial markets were mixed, as some countries continued to grapple with the lingering effects of the global financial crisis of 2008. The markets were also influenced by factors such as political instability, the prevalence of deflation across countries such as Japan and politico-economic areas such as the European Union, falling global oil prices and the increased refugee migration across sections of Europe.

Commodities markets experienced volatility; in particular, oil prices capped a second year as one of the worst-performing commodities in 2015, due to a glut of crude which continued to affect global markets. In 2014, oil prices declined from over US$100.0 per barrel to nearly US$50.0 per barrel, and fell by a further 30.0% in 2015 to US$37.04 per barrel as at December 2015. Brent Crude, the global benchmark, fell by 35.0% to US$37.28 a barrel in 2015. By March 28, 2016, West Texas Intermediate (WTI) crude oil futures rallied and closed at US$39.39 per barrel. The lower oil prices have benefited some countries such as Jamaica, through improvement in the current accounts, while other Latin American countries, heavily dependent on proceeds from oil production, were negatively affected by a reduction in revenues and asset values.

The United States

There were signs of improvement in economic indicators in the United States during 2015.There were improvements in the unemployment level during the year. This, along with lower oil prices, contributed to an increase in consumer confidence. The economy expanded by 0.7 % in the last quarter of 2015, lower than the 2.0% expansion in the previous quarter and slightly below market expectations of 0.8%, according to the estimate released by the *Bureau of Economic Analysis*. The Federal Reserve, in December 2015, increased the FED Fund rates by 0.25%, after years of record lows. Concurrently, variable interest rates (Libor-based) have also trended upward since the start of 2015, moving from 0.36% to 0.91% at end-March 2016.

Europe

The arrival of refugees from the Middle East and Africa into European countries continues to represent a burden on the resources of European Union (EU) countries, which are faced with the cost of accommodating refugees. Additionally, during 2015, several countries in the EU performed poorly, resulting in deflation across the Eurozone. In response, the European Central Bank (ECB), launched a quantitative easing programme, called "The Public Sector Purchase Programme" (PSPP), which commenced in March 2015, and has continued beyond March 2016. Under the PSPP, the ECB purchased EUR60.0 billion in public and private sector securities monthly, for a total of approximately EUR1.16 trillion.

The economic crisis in Greece was temporarily eased in February 2015, as the country received a four-month extension on the bailout package of EUR86.0 billion (US$95.0 billion or £61.0 billion). After several months of negotiations between the country and its creditors, Greece received its third bailout in five years in August 2015.

Declining oil prices in Russia, combined with political sanctions arising from the invasion of Crimea, had a negative effect on the Russian economy and necessitated the continuation of restrictions on exports/ imports and freezing of assets. Consequently, this led to a downgrade of Russia's sovereign bonds to junk by the credit rating agencies, and a decline in Moscow's housing market by almost 30.0% in 2015. The contagion effect of the crisis heightened Ukraine's economic problems, as state resources were exhausted due to the war, and investor confidence was eroded, leading to capital flight.

Emerging Markets

Asia

Growth in emerging and developing Asian economies driven by China and India accounted for over 70.0% of global growth in 2015. Notwithstanding, the projected growth rate of 4.2%, by the IMF, this growth was not realized as global economic activity remained low. In 2016, growth in emerging market and developing economies is expected to increase to 4.7%, largely due to the projected improvement in the economic conditions in a number of distressed economies, including Russia and some economies in the Middle East and North America.

Economic growth in China slowed to 6.3% since the start of 2016, from 7.3% at the beginning of 2015. This was due mainly to contraction in the manufacturing sector resulting from weaker investment growth as the economy continued to rebalance, shifting from an industry and investment-led growth model to one driven by the services sector and consumer spending. The slowdown in the economic activities resulted in depreciation of the Yuan Renminbi as there was a reduction in demand for the currency. Despite China's economic rebalancing and slow-down in global manufacturing, India and the rest of emerging Asia are projected to continue growing at a robust pace.

Latin America and the Caribbean

Despite World Bank projections for growth of 0.4% in the region, developing and high-income economies in Latin America and the Caribbean contracted by 0.9% in 2015, amidst lower commodity prices, decelerations in major trading partners such as China, and persistent domestic challenges among the region's largest economies. The average unemployment rate for the region rose from 6.2% in 2014 to 6.7% in 2015. Notwithstanding the adverse effects of the global economic slowdown in the region, higher levels of informal employment, and acceptance of lower salaries have tempered the unemployment rate.

After defaults in 2001, 2005 and 2010, investors have indicated a willingness to support Argentina's return to the ICM. Bondholders who had participated in the subsequent restructuring received "*Exchange Bonds*" worth approximately 30.0 % of the bonds' original face value, and began to receive payments regularly and immediately. Approximately 93.0% of bondholders accepted the restructuring arrangement. Since February 2016, the Government has agreed, in principle, to a US$4.65 billion cash payment to its main holdout creditors. The deal was presented to Congress for a vote which would end 14 years of legal battles, paving the way for the country's return to global credit markets.

In 2016 Brazil's issuer and bond ratings was downgraded from investment grade to Ba2 and the outlook changed to negative due to ongoing political and economic instability. Notwithstanding, Brazil sold a US$1.5 billion 2026 6.0% dollar-denominated bond on March 10, 2016. It was priced at 99.066%. The country paid 0.5 percentage points more than the average for BB countries, according to data compiled by JPMorgan Chase & Co.

The Government of Trinidad and Tobago faced economic policy challenges stemming from low energy prices and declining natural gas reserves. S&P affirmed the country's rating at 'A' and revised the outlook to negative. Moody's affirmed the rating of 'Baa2' and placed the sovereign on review for downgrade and revised the outlook from stable to negative.

The Jamaican economy expanded by 0.9% in FY2015/16 and the macroeconomic variables improved. The country benefited from the resilience of the tourism sector and a recovery in the agricultural sector, while the mining and quarrying sector contracted for the second consecutive quarter. Jamaica advanced 27 places to rank 58th among 189 economies worldwide in the 2015 *Doing Business*[5] ranking, and is now one of the top six business process outsourcing markets in Latin America and the Caribbean. Jamaica has moved towards protecting intellectual assets, and digital technology offers the potential to harness the creativity that exists in the country.

[5] World Bank publication

DOMESTIC MARKET ACTIVITY

During FY2015/16, activity in the domestic bond market continued to be limited in respect of access for primary GOJ issuances and secondary market trading in GOJ bonds, showing only marginal recovery, despite the sustained improvements in some critical macro-economic variables.

Treasury Bill Operations

The upturn in macroeconomic fundamentals was reflected in the continued downward trajectory of the weighted average Treasury bill yields (WATBY) on all three tranches of GOJ Treasury bills. Yields on the 1-month WATBY, 3-month WATBY and 6-month WATBY moved from 6.30% p.a., 6.73% p.a. and 7.00% p.a. respectively, at end March 2015, to 5.38% p.a., 5.75% p.a. and 5.83% p.a. respectively, at the end of March 2016. In keeping with the continued reduction in WATBY, the BOJ also reduced the signal 30-day benchmark CD rate on August 18, 2015, from 5.50% p.a. to 5.25% p.a. The rate was reduced in the context of the improving current account, rising net international reserves, improved debt ratios and the Government's demonstrated commitment to strengthening fiscal credibility.

Reform of the Retail Repo Market

Requirements of the EFF included legislative and regulatory reform to the financial sector, particularly the securities sector. This comprised, *inter alia*, reforming the retail repo market in order to mitigate systemic risk in the financial sector.

A complete phase-out of the repo operations was initially agreed with the IMF. However, representation and consultative actions of stakeholders resulted in a decision to phase down rather than phase-out the repo system. Under the new arrangement, retail repos are held in the custody of an independent trustee, the Jamaica Central Securities Depository (JCSD) for the benefit of retail repo investors.

The intention is to create room for growth of other collective investment schemes (CIS) such as equities/stocks, fixed-income instruments/bonds, certificates of deposit, and real-estate investments; diversifying investments away from the repo market. The transfer of the securities to the custodian was completed at the end of August 31, 2015.

Government's Re-entry in the Domestic Bond Market

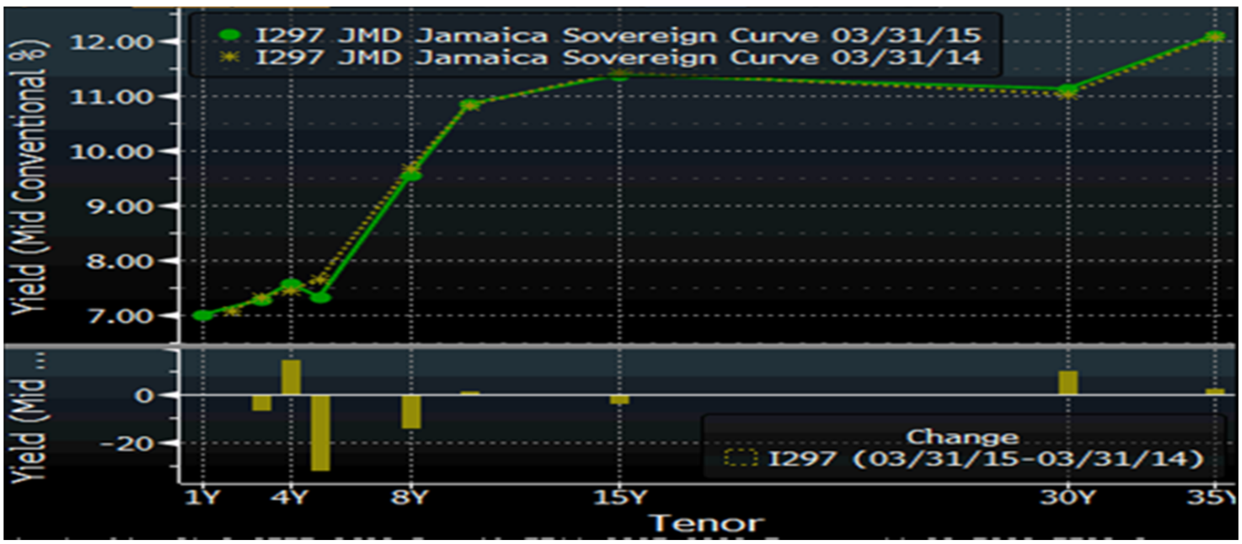
Over the first three quarters of the fiscal year, the improving macro-economic environment led to significant recovery in investor confidence when compared to the similar period of FY2014/15. The Government's investor relations programme facilitated increased dialogue with market participants mainly through one-on-one tele-conferencing and market surveys, which indicated significant improvement in investor outlook and increasing investor interest in acquiring new GOJ assets. Against this background, the Government decided to use the opportunity created by the high levels of liquidity from the maturity of $60.4 billion in benchmark bonds, to strategically re-enter the domestic bond market on February 11, 2016, with the issue of three new fixed-rate benchmark bonds totaling fifteen billion dollars ($15.0 billion).

The re-entry was a resounding success with the limited offer of $15.0 billion being oversubscribed by approximately $17.5 billion or 116.4%, within an hour of the opening of subscriptions. The three new fixed-rate bonds, a two-year maturity with a coupon of 6.625% p.a.; a six-year maturity with a coupon of 7.75% p.a.; and a thirty-year maturity with a coupon of 11.25% p.a., were offered in accordance with the strategy to issue bonds across various segments of the yield curve.

Domestic Yield Curves

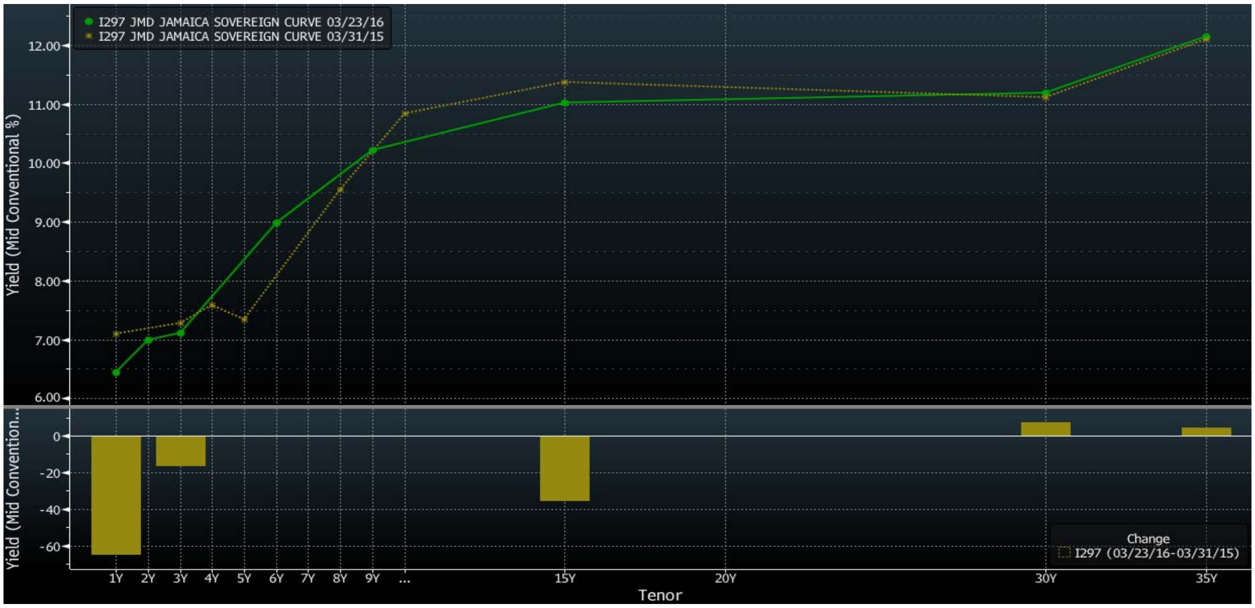
The new issues in February 2016 have produced moderate changes in the Jamaica dollar yield curves for FY2015/16 over FY2014/15, (as shown in **Figure 30**) exhibiting a shift to the left in the 3-year to 9-year segment and a shift to the right over the remainder of the curve. This compares with the previous comparison for FY2014/15 over FY2013/14 as shown in **Figure 29**, when the curve remained relatively unchanged over both years in keeping with the inactivity in the secondary market.

Figure 29: J$ Yield Curves FY2014/15 over FY2013/14



Source: Bloomberg

Figure 30: J$ Yield Curves FY2015/16 over FY2014/15



Source: Bloomberg

The shift in the 3-year to 9-year segment of the yield curve at the end of FY2015/16 is indicative of a decrease in yields consequent on investors' acceptance of lower coupons, the overall improvements in macro-economic indicators and investors' expectation of continued low inflation and interest rates. This is evidenced by the fact that two of the three new bonds, the two-year and six-year, were issued at lower coupons than the existing coupons for these maturities, and that investor demand for all three bonds exceeded supply by approximately 116%. Additionally, the shift is consistent with the resumption of secondary trading activity due to increased liquidity, compared with the minimal trading activity during the previous three fiscal years.

The FY2015/16 yield curve also indicates that yields for 1-year maturities have declined significantly when compared with the previous year. Over the maturity period, 10 years to approximately 25 years, the curve has shifted to the right, converging near the 28-year point, then rising again at the 30-year point over the 5-year period to 35 years, the longest point on the curve. This is also consistent with a new 30-year bond being issued at the same coupon as the existing 30-year bond and indicates that the bonds are held by "buy and hold" investors such as pension funds which are required to meet prudential requirements by holding longer-dated Notes.

REVIEW OF THE FY2015/16 ANNUAL BORROWING PLAN

The annual financing requirement for FY2015/16, projected at $128.9 billion or 7.6% of GDP, was budgeted to be financed from both domestic and external sources. However, developments in the first five months of FY2015/16 resulted in significant adjustments to the Annual Borrowing Plan (ABP) and the Government exceeding its planned external financing.

Favourable market conditions led to a decision to borrow more than the projected amount of US$250.00 million and facilitated the successful tapping of the ICM with the issue of two bonds for an amount of US$2.0 billion, at historically low coupons at the medium and long end of the yield curve. The proceeds from both Bonds facilitated the funding of a liability management exercise to repay outstanding debt of the GOJ to Petroleos de Venezuela S.A. and the Government's budgetary requirements for the remainder of the fiscal year, including the repayment of $60.9 billion in domestic benchmark bonds which matured in February 2016.

In keeping with the financing plans outlined in the ABP, a total of $14.0 billion was issued in Treasury bills and a limited amount of $15.0 billion issued in domestic bonds as the Government strategically re-entered the domestic market by tapping the liquidity created from the bond maturities in February 2016. The Central Government did not access the scheduled financing of $30.2 billion from the PCDF due to the execution of the Petrocaribe liability management transaction. At the end of FY2015/16, funding from domestic sources, previously projected at $56.3 billion, amounted to $29.0 billion while external financing moved from a budgeted $72.6 billion to $269.6 billion, of which loans for budgetary financing and investment totalled $34.8 billion.

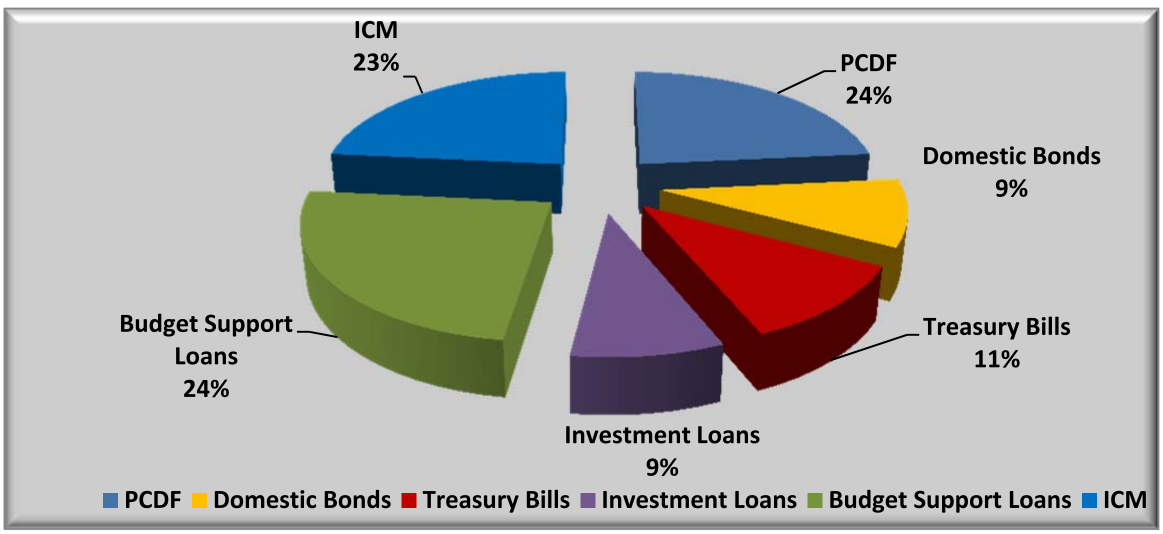
The results of the borrowing activities for FY2015/16, compared to the Annual Borrowing Plan, as outlined in the *Medium-Term Debt Strategy FY2015/16-FY2017/18,* are presented in **Table 9**.

Table 7: Comparison of borrowing strategy and actual borrowing for FY2015/16

	Original ABP FY2015/16	Actual Borrowing at end FY2015/16	Deviation from the ABP
DOMESTIC ($mn)	**$56,338.0**	**$29,000.0**	**(48.5%)**
PetroCaribe Dev Fund	$30,232.5	$0.0	(100.0%)
Market Issues	$12,105.5	$15,000.0	23.9%
Treasury Bill	$14,000.00	$14,000.0	0.0%
EXTERNAL($mn)	**$72,592.2**	**$269,596.2**	**271.4%**
Investment loans	$10,917.9	$12,326.3	12.9%
Budget Support Loans	$31,441.8	$22,512.7	(28.4%)
ICM	$30,232.5	$234,757.2	676.5%
TOTAL ($mn)	**$128,930.2**	**$298,596.2**	**131.6%**

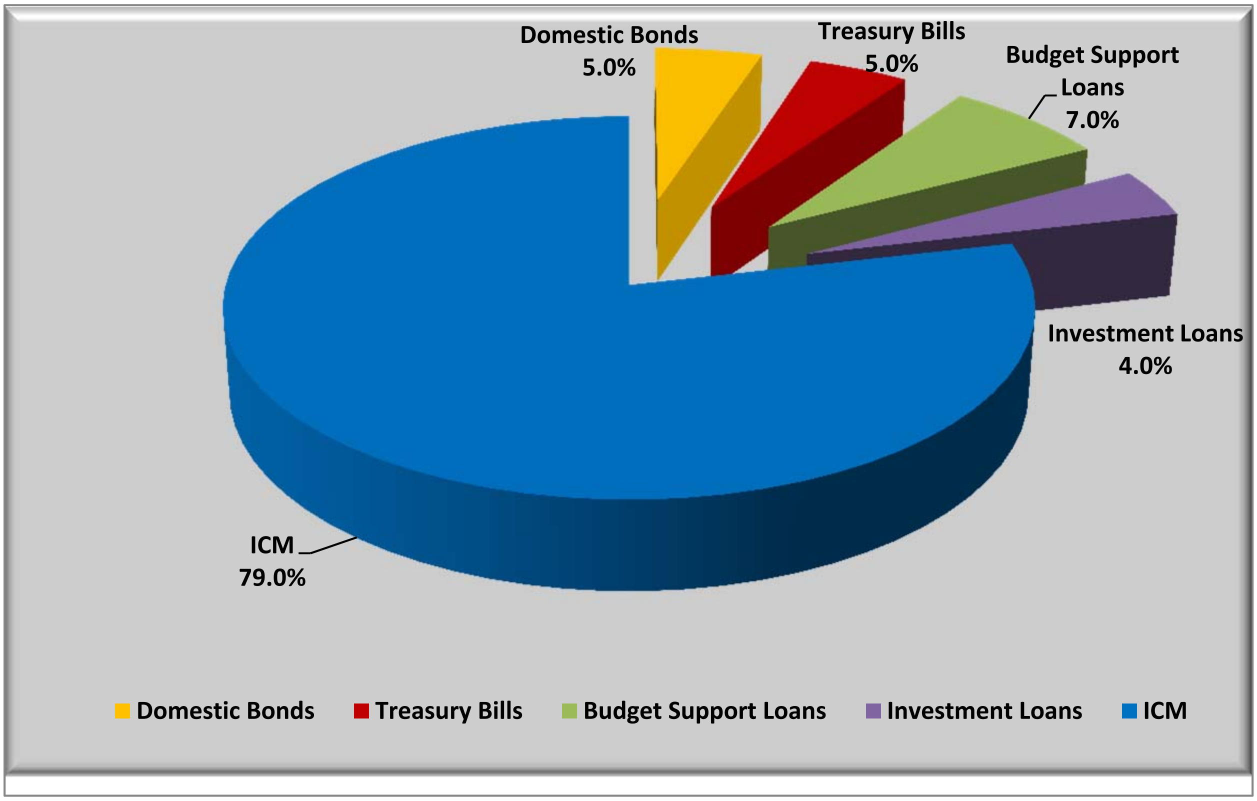
Source: Ministry of Finance and the Public Service

Figure 31: Original Annual Borrowing Plan for FY2015/16



Source: Ministry of Finance and the Public Service

Figure 32: Actual Borrowing Plan for FY2015/16



Source: Ministry of Finance and the Public Service

INSTITUTIONAL DEVELOPMENTS

During FY2015/16, the DMB continued its efforts to advance best practices in debt operations through the strengthening of institutional capacity and proficiency through its Investor Relations Programme (IRP), IMF technical assistance missions, and capacity building programmes.

REVIEW OF IRP

The primary objective of the GOJ's IRP is to update investors, creditors, analysts, ratings agencies and other stakeholders on developments in Jamaica's sovereign debt and the government's financing plans. Additionally, through the IRP, information is gathered from domestic and external stakeholders that serve as a key input into the Government's debt management strategy. The following activities were undertaken in the second year of the programme implementation:

- ***STAKEHOLDERS' MEETING***

  In January 2016, the Debt Management Branch (DMB) convened a meeting with domestic market representatives to discuss matters relating to the financial industry. Special guest speaker, Mr. Brian Wynter, Governor, Bank of Jamaica, provided updates on macroeconomic indicators and the liquidity management strategy for the February 2016 $62.0 billion bond maturity, which was the focus of the meeting. Additionally, the Principal Director DMB outlined the strategy for re-entry to the domestic bond market.

  One-on- One Meetings

  During January 2016, the DMB team held one- on- one meetings with nine (9) financial entities inclusive of securities dealers, insurance, pension, and commercial banks. The main objective was to obtain feedback on the GOJ's re-entry strategy.

- ***INVESTOR ROAD SHOW***

  During June 16-24, 2015, the then Minister of Finance and Planning, Honourable Dr. Peter Phillips led a delegation on a successful non-deal road show across several cities in the United States of America and Europe to update external stakeholders on the country's economic progress.

- ***INVESTORS/STAKEHOLDERS SURVEY***

  During the review period, survey was designed and issued to estimate market expectations on GOJ Securities as well as to solicit stakeholders' perception of the on-going Economic Reform Programme. The Front Office team utilized the survey along with the information from the one-on-one meetings to develop the issuance calendar for FY2016/17 and the February issuance.

- ***GENERAL COMMUNICATIONS***

  - The DMB's Principal Director, on April 2, 2015, was a guest on *"Let's Talk Finance*" on Nationwide to discuss the Medium-Term Debt Management Strategies FY2015/16-FY2017/18 and other general public debt topics;

  - The Investor Relations Unit utilized the MOFP social media channels to disseminate information by providing the Public Relations and Communications Unit with relevant and timely information on debt operations activities, achievements and press releases.

  - The revamping of the Debt Management webpage continued and is scheduled to be launched in the first quarter of FY2016/17.

TECHNICAL ASSISTANCE

- Three (3) IMF technical advisors, during the review period, continued with peripatetic missions to assist with the strengthening of the debt management operations in the areas of Fiscal Agency Agreement, Business Continuity Planning, Middle Office capacity building and MTDS modelling and strategy.

- A Debt Management consultant continued to work closely with the DMB team to produce the Debt Management Procedures Manual. Completion is expected in FY2016/17.

CAPACITY BUILDING

- During FY2015/16, DMB staff attended and participated in various training activities, workshops and seminars as a part of the ongoing efforts to strengthen capacity to facilitate sustained implementation of best practices to advance efficiency, effectiveness and transparency in debt management operations.

APPENDIX I

PROFILE OF THE STOCK OF PUBLIC DEBT

(J$ millions)

	FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16
DOMESTIC DEBT	**482,712.6**	**513,930.8**	**562,108.1**	**651,657.4**	**758,700.4**	**809,369.9**	**912,642.3**	**1,008,348.6**	**1,024,515.2**	**1,054,911.1**	**815,948.5**
Percentage of total debt	57.0%	55.7%	56.2%	54.3%	52.9%	51.5%	54.9%	55.6%	52.6%	51.7%	39.4%
Local Registered Stocks	235,632.7	226,631.1	223,581.6	201,936.1	168.1	-	-	-	-	-	
Treasury Bills	3,800.0	4,200.0	4,200.0	4,094.5	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0
Investment Debentures	155,905.6	200,676.8	261,459.9	328,268.2	27,115.9	-	-	-	-	-	-
US$-Indexed Bonds	25,575.1	24,588.9	17,843.2	29,743.4	419.3	-	-	-	-	-	-
US$-Denominated Bonds & Loans	51,163.7	49,993.7	49,894.3	79,567.5	25,539.2	29,255.3	63,977.8	108,296.5	149,816.3	181,893.5	-
J$ Benchmark Bonds	-	-	-	-	600,971.4	667,800.7	733,216.1	762,137.8	756,113.9	749,361.3	694,896.5
US$ Benchmark Bonds	-	-	-	-	73,253.5	79,561.1	80,997.8	92,928.2	70,768.0	74,300.2	70,420.7
CPI-Indexed Bonds	-	-	-	-	21,165.0	23,573.7	25,269.4	36,890.0	40,343.5	42,338.6	43,902.0
Commercial Loans	10,635.4	7,840.4	5,129.1	8,047.7	6,068.0	5,179.1	5,181.3	4,096.1	3,473.3	3,017.6	2,729.2
EXTERNAL DEBT	**364,638.9**	**409,198.1**	**438,567.3**	**548,664.9**	**676,055.6**	**760,998.2**	**749,631.1**	**804,286.7**	**921,489.8**	**986,782.6**	**1,252,810.7**
Percentage of total debt	43.0%	44.3%	43.8%	45.7%	47.1%	48.5%	45.1%	44.4%	47.4%	48.3%	60.6%
Bilateral	49,199.9	47,660.3	49,403.5	60,884.5	84,144.4	87,039.0	66,609.4	79,261.5	93,022.2	93,191.5	91,654.4
Multilateral	**81,948.4**	**81,983.1**	**85,421.5**	**119,302.9**	**220,990.1**	**266,631.6**	**288,169.6**	**318,880.8**	**386,519.5**	**382,228.7**	**430,903.6**
IBRD	25,735.5	24,832.2	24,207.9	35,594.4	51,529.2	47,953.3	56,836.4	63,915.0	83,678.0	94,785.4	99,797.2
IDB	38,789.6	38,205.2	38,251.1	55,611.6	78,071.4	105,227.8	111,014.5	124,112.5	157,004.8	163,319.9	191,762.8
IMF	0.0	0.0	0.0	0.0	57,285.2	72,884.2	74,202.8	82,483.9	88,738.2	67,092.4	80,773.8
CDB	8,656.1	8,917.1	11,791.7	16,138.1	22,084.7	24,989.8	29,547.1	32,228.5	40,632.2	43,405.1	44,978.0
EEC	6,420.0	7,370.8	8,500.5	8,646.1	8,555.0	11,479.4	12,175.6	12,051.3	12,344.2	9,809.2	9,975.2
Other Multilateral	2,347.2	2,657.9	2,670.3	3,312.7	3,464.6	4,097.1	4,393.2	4,089.6	4,122.1	3,816.7	3,616.5
Bonds	208,918.9	258,204.9	280,550.2	339,756.8	340,647.0	360,163.1	351,204.4	361,330.4	396,716.9	472,544.0	694,147.3
Other	24,571.8	21,349.8	23,192.1	28,720.7	30,274.2	47,164.5	43,647.7	44,814.0	45,231.2	38,818.4	36,105.5
TOTAL DEBT	**847,351.5**	**923,128.9**	**1,000,675.4**	**1,200,322.3**	**1,434,756.0**	**1,570,368.1**	**1,662,273.4**	**1,812,635.3**	**1,946,005.0**	**2,041,693.8**	**2,068,759.2**

Source: Ministry of Finance and the Public and the Public Service

GLOSSARY

Amortisation

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.

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.

On-the-run security

In finance, an on-the-run security or contract is the most recently issued, and hence most liquid, of a periodically issued security. On-the-run securities are generally more liquid and trade at a premium relative to other securities. Other, older issues are referred to as off-the-run securities, and trade at a discount to on-the-run securities.

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.

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.