Government of Jamaica

• Presentation at the Regional Course on Financial Markets

September 10-12, 2019 – Nassau, Bahamas

Government Bond Market Development
- The Jamaican Story
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Government of Jamaica

Strategic Location

GDP per Capita (2018)  US$5,355.60 Mn
Population  2.73 million (2018)

FX Rate (EOP)  J$137.7=US$1 (August 2019)
Annual Inflation  3.4% (Fiscal Year 2018/19)
6 Month T-Bill Rate  1.87% (August 2019)
Net Int’l Reserves  US$2,951.4M (July 2019)
Sovereign Rating  B (S&P 2018)
               B+ (Fitch 2019)
               B3 (Moody’s 2019)
Debt Management Objectives

- Raising adequate funding to satisfy GOJ’s financing needs, at the lowest possible costs and at a prudent levels of risk

- Minimizing exposure to and managing the main risks inherent in the public debt portfolio

- Maintaining and encouraging further development of an efficient domestic debt market for GOJ securities

- and broadening the Government’s investor base and diversifying funding sources
DEBT DEVELOPMENTS FY2009/10 to FY2019/20

- Legal and Regulatory Framework
- Debt Profile
- Operations – Issuances and Settlement
  Payment and Settlement Systems
Conditions Leading to Jamaica’s Debt Exchange

- Shrinking Fiscal Space
- Poor Debt Dynamics
- Lowering of Jamaica’s Credit Ratings
- Large Numbers of Illiquid Securities
- Refinancing Risk
The Debt Exchanges – JDX and NDX

- The Jamaica Debt Exchange (JDX) and National Debt Exchange (NDX) - Comprehensive liability management programmes undertaken in the domestic portfolio, in February 2010 and February 2013.

- JDX & NDX- precondition for approval of IMF programmes.

- JDX objectives - cost savings, increase the fixed rate component, extend maturity

- NDX objectives - extend maturities and reduce interest rates.
Positive Impact of Debt Exchanges

• **JDX:** Domestic debt portfolio re-profiled, 350 bonds with paper certificates replaced with 25 liquid benchmark bonds in electronic format

• Interest rates reduced, FR:VR ratio increased by 7%

• CPI linked Bonds introduced and US$ Indexed Bonds discontinued

• Maturities extended and smoothed

• Dematerialisation of debt securities – paperless

• **NDX:** 25 new Benchmark Bonds replaced 25 eligible Bonds,

• Further extension of the maturity profile by approximately 5 years; and

• Interest rates reduced by 200 basis points
Change in Domestic Debt Composition - 2019

PRE DEBT EXCHANGE:
- Local Registered Stocks: 30.99%
- Treasury Bills: 12.21%
- Land Bonds: 4.56%
- Debentures: 50.37%
- US $ Indexed Bonds
- US$ Denominated Bonds
- Euro Denominated Bonds
- Commercial Bank & Public Sector Entity Loans

Debt Data-June 2019:
- Treasury Bills: 37.83%
- Loans: 18.54%
- CPI: 18.30%
- FR: 15.86%
- FR Step Up: 0.03%
- FRAN: 6.38%
- VR: 1.77%
- VR Step Up: 1.29%
Debt Profile - Extended Maturity Profile

Portfolio: March 2019
Domestic Market Developments Post Debt Exchanges

- No access to primary and secondary markets after NDX
- Reform of the retail repo market
- Introduction of collective investment schemes
- Government’s re-entry into the domestic bond market
- Partially refinance large maturities
- Use of liability management tools such as buy backs to re-profile the debt and reduce refinancing risk.
- Formalize the investor relations programme to enhance communication with the market.
Developments - Legal and Regulatory Framework

- February 16, 2010 - The Government Securities Dematerialization Act 2010 was passed into law to facilitate the immobilization and dematerialization of Government securities.

- December 2012 - The Public Debt Management Act, 2012 (PDMA) was enacted and became operational in January 2013. It repealed, updated and consolidated over 20 separate laws into a single legislation.


- May 2017 - Reform of the retail repo market
Developments - Legal and Regulatory Framework

• October 2017 - The Public Debt Management Act. 2012 (PDMA) was amended.

• September 2018 - A revised Primary Dealers Agreement was executed.

• October 2018 - Upgrade of the Central Securities Depository (JamClear-CSD).

• October 2018 - Dematerialization of Treasury Bills (JamClear-CSD)
Developments - Institutional

- Debt Management Unit (DMU) restructured along functional lines
- Front, middle and back office model in keeping with international best practice
- Resulting in increased efficiencies.
Developments: Issuances

• *Prior to Debt Exchange* - Issuances through E-Gate

• *Post Debt Exchange* – Issuances via the Jam-Clear Central Securities Depository and Real Time Gross Settlement (Jam-Clear CSD and Jam-Clear RTGS).
Developments: Payments and Settlements

• **Prior to Debt Exchange:**

  • Payments generated via Securities Management System (SMS) by cheques and electronic payments via File Transfer Protocol (FTP)

  • Settlements effected via E-Gate

• **Post Debt Exchange:**

  • Payments and settlements effected via the Jam-Clear Central Securities Depository and Real Time Gross Settlement (Jam-Clear CSD and Jam-Clear RTGS).
Benefits

- Enhanced price discovery
- Low interest rate environment
- Increased levels of liquidity
- Sustained robust demand for GOJ securities
- Facilitation of a crowding-in effect
- Improved credit rating
- Improved coordination with the Central Bank
Challenges

• Low secondary market trading
Further Development of the Government Bond Market

- Continue policies in accordance with the Medium Term Debt Strategy FY 2019/20-FY2022/23
- Continue to explore opportunistic Liability Management Operations
- Seek to further broaden and diversify the domestic market investor base geographically
- Continue Investor Relation Programme to promote best practices in stakeholder engagement
- Implementation of phase two upgrade of JamClear-CSD
- Incremental Reform of a Fixed Income Trading Platform for Domestic Securities
Are There any Questions?

Thank You!