National Debt Exchange

The air of market uncertainty around whether or not there would be another debt restructuring was dispelled with last evening's update on the IMF negotiations from the Prime Minister and the Minister of Finance. In order to signoff on the long awaited agreement and gain access to an Extended Fund Facility, the government must take certain prior actions. These prior actions include the elimination of discretionary waivers, initiate changes to bring the wage to GDP ratio to 9% by 2015/16, and the most significant initiative, a debt restructuring that will assist in bringing the country's debt to sustainable levels. With respect to the latter, the Prime Minister announced the launch of a National Debt Exchange (NDX).

The NDX is a debt restructuring initiative which will result in an extension of the maturity profile on all domestic debt and also a reduction in coupon payments. The NDX is being launched with the view to reduce the government's interest costs in order to bring the debt to more sustainable levels and to smoothen the maturity profile of the debt. If the NDX is successful, the government expects to reduce interest expenses by $17Bn per annum between now and 2020. This will assist the government in getting to the targeted debt to GDP level of 95% over the next seven years from its current level of 140%. The transaction will involve approximately J$860Bn of domestic GOJ debt. Locally issued bonds denominated in J$ including fixed rate, variable rate and CPI indexed bonds, as well as locally issued bonds denominated in US$ will be exchanged in this transaction. The NDX will result in a shift and also a steepening of the yield curve as shorter term instruments will experience the most significant rate reduction. Rates on the short term fixed rate instruments will be reduced by over 500 basis points, while on the longer end of the curve, the reduction will be approximately 100 basis points. Following the NDX, coupons on fixed rate debt instruments are expected to range between 7.25% and 12.25%, compared to the current 10.00% and 13.25%. On the variable rate side, the reset margin will see significant reductions. For example, on the VR2013, the reset margin will be reduced from 1.00% to 0.25%. Similar changes to the reset margin will take place for other VR instruments.

Points to Note

- Only Jamaican residents who hold domestic debt will be able to participate
- Holders of Old J$ VR Notes will be able to exchange old notes for newly issued Variable Rate Notes. While holders of Old Fixed Rate Notes will be able to exchange these notes for new Fixed Rate Notes. That is, Fixed Rate for Fixed Rate and Variable Rate for Variable Rate.
- The debt swap will be par for par. This effectively means that investors who purchased bonds at a premium, after the falloff in market interest rates post JDX will suffer capital losses in addition to the interest rate reduction.
- New 1 year bonds in J$ and US$ will be available to retail holders owning VR, FR and US$ Notes maturing in 2013 and 2014.

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- A new bond called the Fixed Rate Accreting Note (FRAN) will also be made available, for all J$ Fixed Rate and Variable Rate Notes. The FRAN is essentially a haircut on the principal. Holders who opt for the FRAN will receive $80 principal for $100 exchanged and the interest rate will be fixed a 10% on the nominal. The principal of the notes will increase to $100 over the life of the bond in the following way: starting August 2015, the principal accretes(grows) by 0.50% per 6 months until 2021; 1.00% per six months until 2027 and 1.50% accretion ever the remaining six months to maturity.

While the NDX is a voluntary debt exchange initiative, no clarity was provided as to the repercussions for those investors who opt not to participate.

See link below for term details

http://www.ncbcapitalmarkets.com/dmdocuments/Benchmark_Bonds_Pricing_Terms_Feb_12_2013.pdf

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