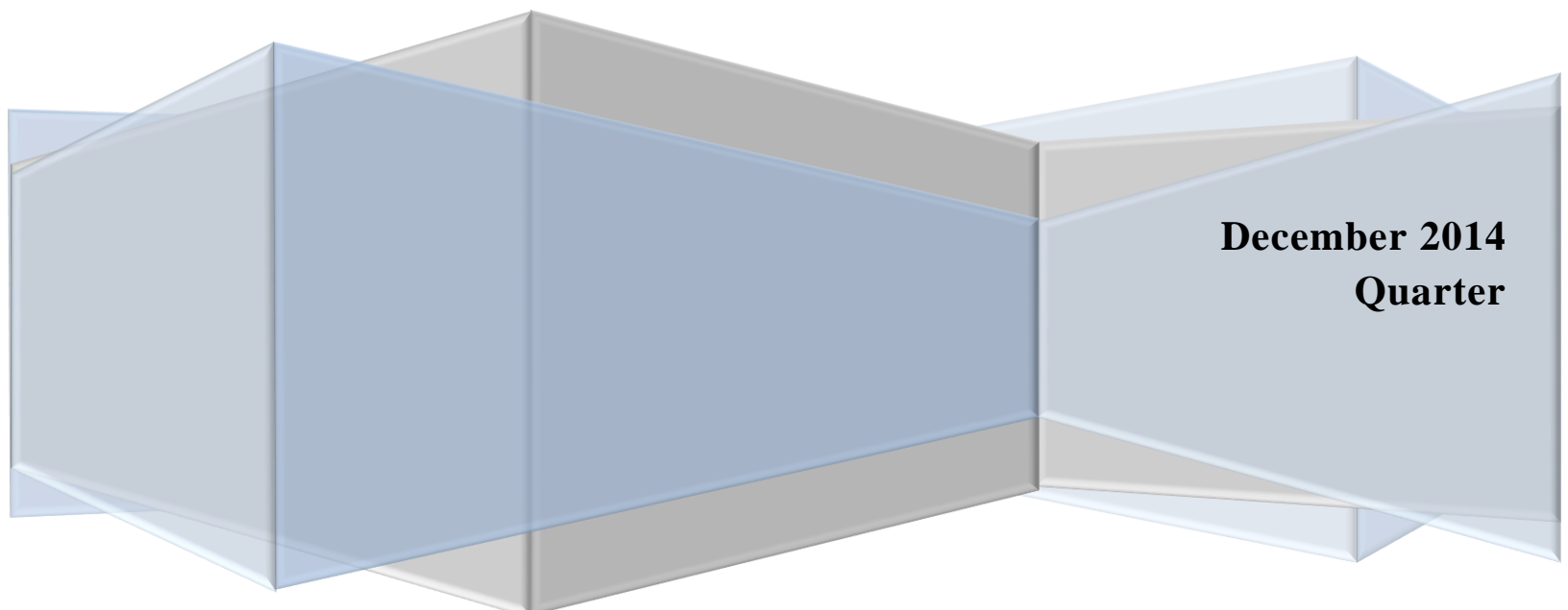




Quarterly International Investment Position Report

International Accounts Unit

Economic Information Publications Department

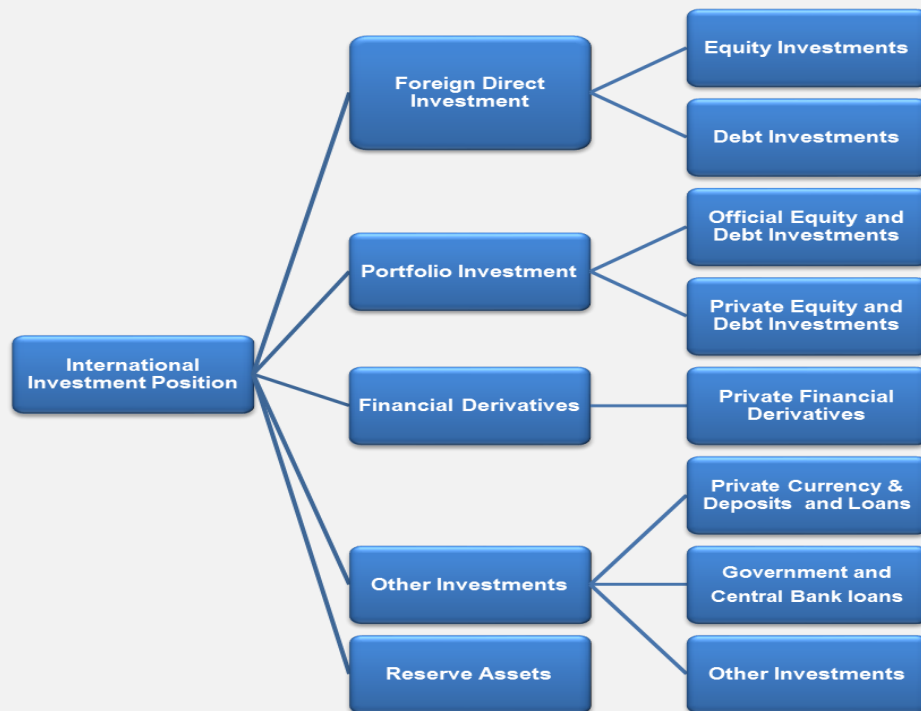


**December 2014
Quarter**

Box 1: Jamaica’s International Investment Position

The International Investment Position (IIP) is a statistical statement that summarizes Jamaica’s external financial assets and liabilities. The IIP shows the stock of financial assets and liabilities as at a given point in time, where changes in the stock between two periods would reflect the sum of all transactions, valuation changes and other changes. External financial assets represent Jamaica’s claims on non-residents while external liabilities reflect claims on Jamaica by non-resident parties. Generally, a build-up of external liabilities reflects sources of financing or inflows of foreign capital to the economy, whilst an increase in external assets reflects foreign capital outflows. The net international investment position is the difference between the holdings of financial assets and incurrence of liabilities. Notably, a deteriorating net IIP balance is generally associated with current account deficits which must be financed by an increase in external liabilities. The IIP is also affected by exchange rate changes that results in changes in the value of the financial assets and liabilities over time.

Figure 1- Components of External Assets and Liabilities



1. Non-FDI private capital flows is the sum of private portfolio flows, private currency and deposits and loans.

Summary

At the end of the December 2014 quarter, Jamaica's Net International Investment Position was **-US\$21.3 billion (-153.6 per cent of GDP)**. Relative to the September quarter, this outturn reflected an improvement of **US\$150.7 million** in the net IIP (see **Table 1**).

This improvement was largely due to a decline in net portfolio investments liabilities of **US\$233.3 million** and an increase of **US\$410.3 million** in residents' external holdings of currency and deposits assets. The impact of these transactions was partially offset by an increase of **US\$166.2 million** in net direct investment liabilities and a reduction of **US\$241.4 million** in the stock of gross reserve assets.

For the calendar year, the IIP deteriorated by **US\$783.2 million (8.8 per cent of GDP)**. This

deterioration was largely driven by an increase in inward foreign direct investment of **US\$701.4 million**; a build-up of **US\$248.1 million** in net portfolio investment liabilities; increased external loan obligations of **US\$430.8 million** and net drawdown of **US\$122.8 million** on the stock of deposits held abroad.

The impact of the above liability inflows was partly offset by greater holdings of external assets, largely in the form of a higher stock of reserve assets. Notably, the significant increase in the annual reserve assets broadly reflected the proceeds of the **US\$800.0 million** Eurobond issued by the Government in the September 2014 quarter.

Table 1 Net International Investment Position- Summary Table (USD Millions)

	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Annual Change	Quarterly Change
Net International Investment Position	(20 559.0)	(20 959.5)	(21 065.6)	(21 492.9)	(21 342.2)	(783.2)	150.7
IIP-to-GDP Ratio	(144.8)	(149.2)	(150.2)	(154.7)	(153.6)	(8.9)	1.0
Net Direct investment	(12 457.3)	(12 628.4)	(12 815.7)	(12 992.6)	(13 158.8)	(701.4)	(166.2)
Net Portfolio investment	(1 593.5)	(1 564.3)	(1 288.1)	(2 074.8)	(1 841.6)	(248.1)	233.3
Equity and investment fund shares	(291.2)	(346.2)	(251.7)	(393.8)	(302.1)	(10.9)	91.6
Debt securities	(1 302.2)	(1 218.2)	(1 036.4)	(1 681.1)	(1 539.4)	(237.2)	141.6
Government Issued Portfolio Securities	(2 181.4)	(2 180.2)	(2 303.7)	(3 047.4)	(2 831.5)	(650.1)	215.9
Other Securities	879.1	962.1	1 267.3	1 366.3	1 292.0	412.9	(74.3)
Net Other investment	(8 331.3)	(8 823.0)	(8 981.3)	(9 142.1)	(8 817.1)	(485.7)	325.0
o/w Currency and Deposits	1 435.7	1 138.2	1 204.0	902.6	1 312.9	(122.8)	410.3
Loans	(8 844.4)	(9 025.9)	(9 250.0)	(9 181.0)	(9 275.2)	(430.8)	(94.2)
Reserve assets	1 817.6	2 048.6	2 016.5	2 715.3	2 473.9	656.3	(241.4)
Notes:							
1. A negative number represents an increase in external liabilities or net capital inflow							
2. A positive number represents an increase in external assets or net capital outflow							
3. Net international investment position is the sum of net direct investment, net portfolio investment, net other investments and net financial derivatives							

Portfolio Investment

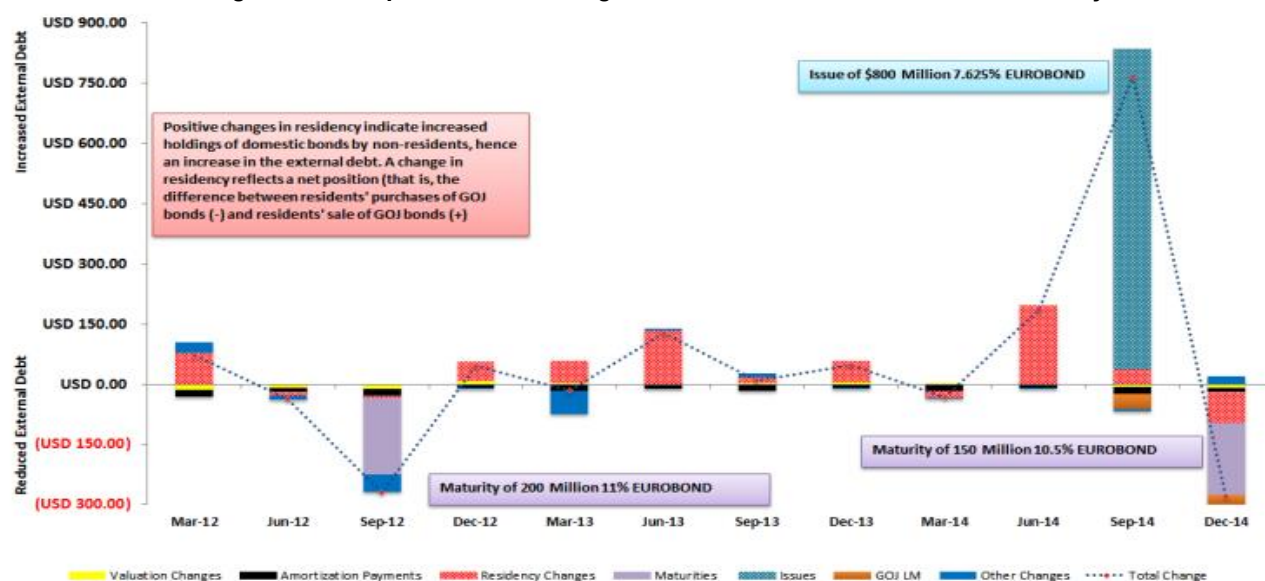
At end-December 2014 the stock of net portfolio inflows totalled **US\$1.8 billion** reflecting an increase of **US\$248.1 million** relative to end-December 2013. However, relative to end-September 2014, there were net portfolio outflows of **US\$233.3 million** (see Table 1). Net outflows of portfolio investments reflected residents' holdings of portfolio securities issued by non-residents.

The net outflows in Portfolio Investment liabilities for the September quarter reflected a reduction in non-residents' holdings of domestic debt and equity securities by **US\$141.6 million** and **US\$91.6 million**, respectively. Further, the observed reduction in net portfolio liabilities from debt securities predominantly reflected the

maturity of a GOJ Eurobond in the quarter. This occurred in a context where the maturity of the bond resulted in repayments of the liability to non-resident bondholders. As such, non-resident holdings of Government-issued securities declined during the quarter.

In addition, reductions also emanated from the partial sale of non-residents' holdings of GOJ global bonds to residents on the secondary market. Altogether, the Eurobond maturity, non-residents' sale of GOJ portfolio securities to resident investors and other amortization changes resulted in a decline of **US\$215.9 million** in the stock of net portfolio liabilities from Government issued portfolio securities (see Figure 1). The impact of this reduction was

Figure 1: Composition of Changes in Jamaica's External Bond Liability



¹Figure 1 illustrates the evolution of the portfolio liabilities resulting from sovereign and Government

partially offset by a decline of **US\$74.3 million** in residents' net holdings of investments in externally issued securities.

Foreign Direct Investment

For the calendar year 2014, the stock of net inward foreign direct investment was **US\$13.2 billion**, reflecting an increase of **US\$701.4 million** relative to 2013.

Relative to end-September 2014, the net inward FDI position increased by **US\$166.2 million** (see Figure 2). The increase in FDI Inflows for the December 2014 quarter was largely composed of new equity inflows to the Infrastructure and Tourism sectors (see Figure 3).

The surge in inflows of new FDI equity suggests a significant increase in projects at the development phase as opposed to the saturation phase when FDI inflows would have reflected reinvested earnings.

Other Investment

Other investments in the IIP were comprised predominantly of loans of the private and public sector, cross-border banking deposits and trade credits.

For the review quarter, net liabilities from the other investments sub-category declined **US\$325.0 million**. This reduction was largely attributable to a net buildup of **US\$410.3 million** in deposits held abroad by residents, which was partially offset by a marginal increase of **US\$94.2**

Figure 2 Stock of Foreign Direct Investment

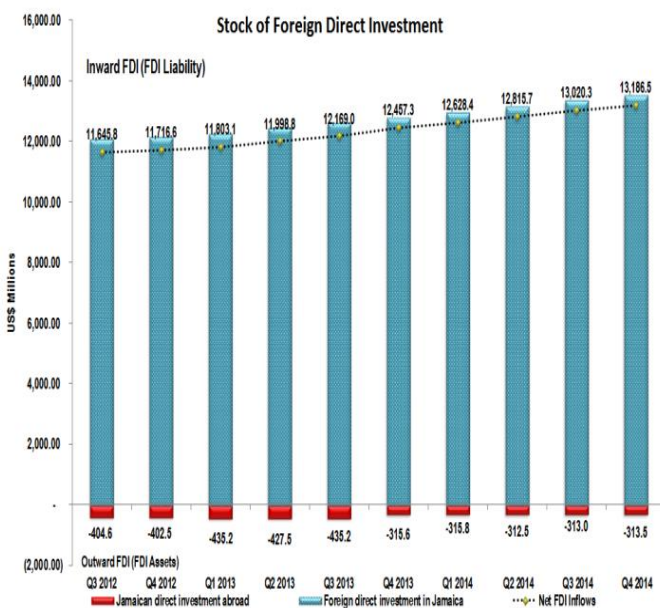
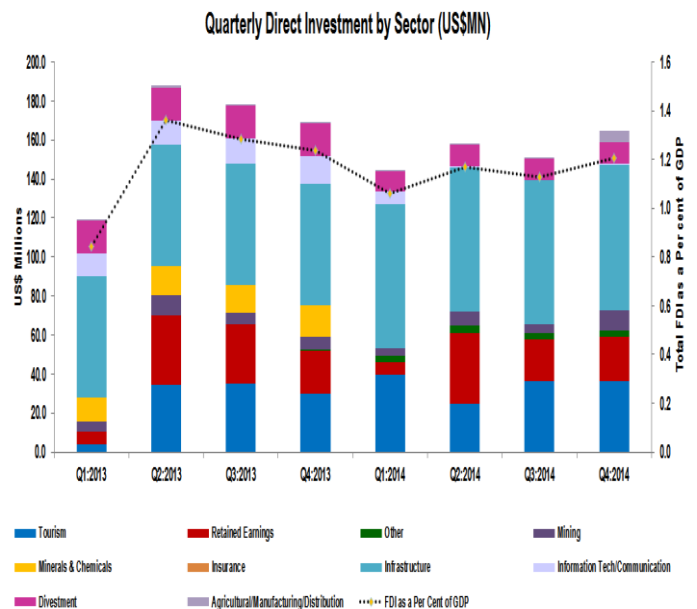


Figure 3 Sectoral Composition of FDI



million via the net receipts of loans from non-residents.

For the calendar year, there was an increase of **US\$485.7 million** in Other Investments. This outturn reflected net loan inflows of **US\$430.8 million** mainly attributable to General Government, particularly receipts from multilateral organizations and loan inflows from the PetroCaribe Development Fund. The impact of these loan receipts was partially offset by a reduction of **US\$122.8 million** in net currency and deposit assets held abroad. The decline in the currency stock largely reflected individuals' and banking institutions' drawdown on the stock of deposits held abroad.

Reserve Assets

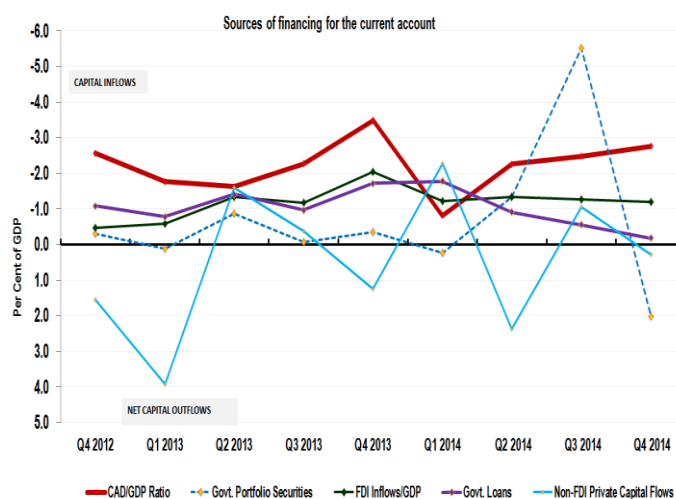
At end-December 2014, Jamaica's gross reserve assets stood at **US\$2.5 billion**, reflecting a decline of **US\$241.4 million** relative to the previous quarter. This occurred as inflows from official and private sources were insufficient to finance the net balance on the Current and Capital accounts. For 2014, gross reserve assets increased by **US\$656.3 million**, largely reflecting inflows from the issuance of the GOJ Eurobond in the September 2014 quarter.

Financing the Current Account Deficit

Figure 4 indicates that, for the period December 2012 to December 2014, the main sources of financing for the current account deficit have been FDI inflows and, to a lesser extent, financing from bank lending and portfolio inflows. Consistent with this trend, for the December 2014 quarter, inward FDI and loan inflows were the primary sources of financing for the current account deficit. These components recorded net capital inflows of **1.2 per cent** of GDP and **0.1 per cent** of GDP, respectively, for the December 2014 quarter.

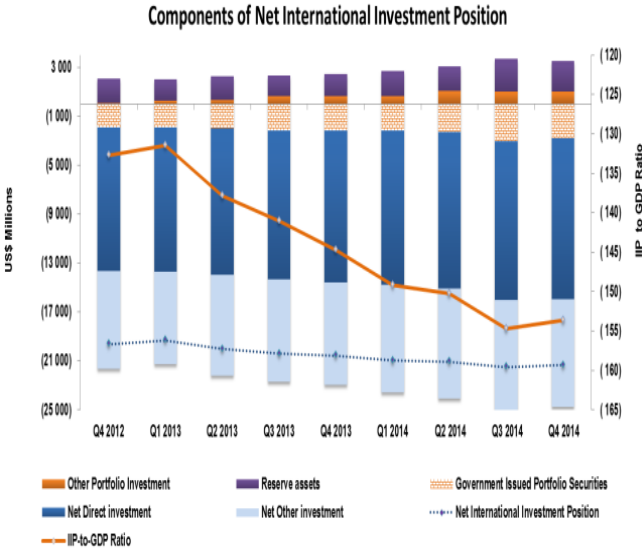
In summary, the Net IIP was **-153.6 per cent** of GDP at end-December 2014. This reflected an improvement of **1.1 per cent** of GDP relative to the September 2014 quarter (see Figure 5). However, this outturn represented a deterioration

Figure 4: Financing the current account



of 8.8 per cent of GDP relative to the December 2013 quarter.

Figure 5: Financing the current account



Glossary¹

Direct Investment- Direct investment is a category of cross-border investment associated with a resident in one economy having control (greater than 10 per cent) or a significant degree of influence on the management of an enterprise that is resident in another economy. A direct investment relationship arises when an investor resident in one economy makes an investment that gives control or a significant degree of influence on the management of an enterprise that is resident in another economy.

Portfolio Investment- Portfolio investment is defined as cross border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets. Portfolio investment covers, but is not limited to, securities traded on organized or other financial markets. Of note, equity not in the form of securities (e.g., in unincorporated enterprises) is not included in portfolio investment, it is included in direct or other investment.

Other investments- Other investment is a residual category that includes positions and transactions other than those included in direct investment, portfolio investment, financial derivatives and employee stock options, and reserve assets. Other investment includes:

- (a) Other equity;
- (b) Currency and deposits;
- (c) Loans (including use of IMF credit and loans from the IMF);
- (d) Nonlife insurance technical reserves, life insurance and annuities entitlements, pension entitlements, and provisions for calls under standardized guarantees
- (e) Trade credit and advances;
- (f) Other accounts receivable/payable; and
- (g) SDR allocations (SDR holdings are included in reserve assets).

¹ Definitions for these items were taken from the IMF's Balance of Payments and International Investment Position Manual-Sixth Edition (BPM6), see <https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf>