Quarterly International Investment Position Report

International Accounts Unit

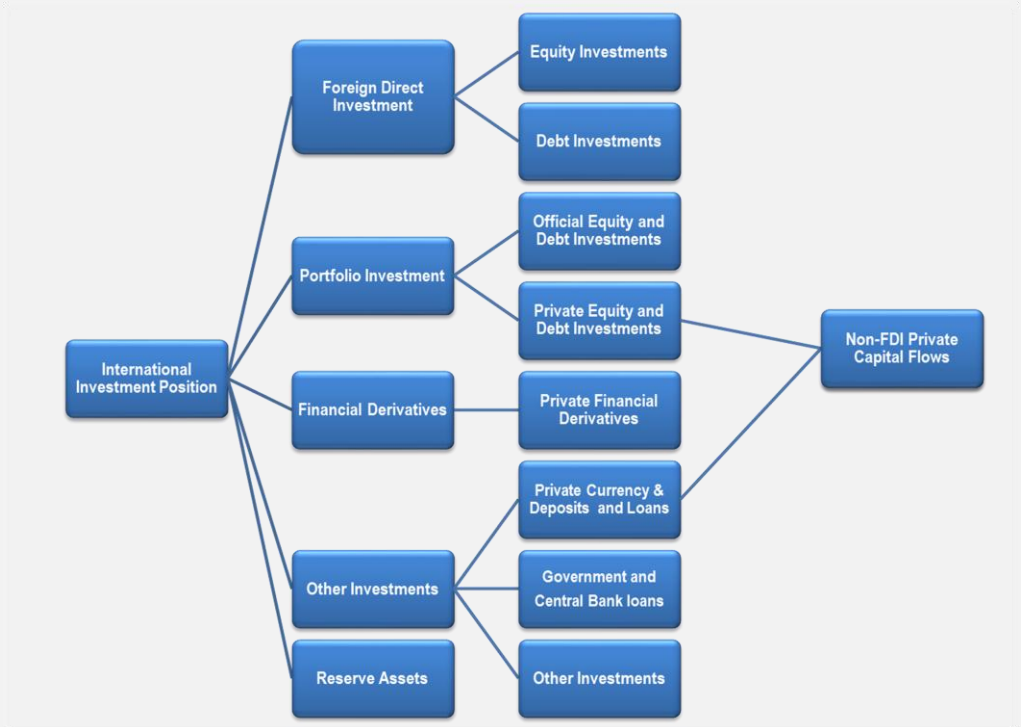
Economic Information and Publications Department

September 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 end September 2014, Jamaica's Net International Investment Position was -US$21.4 billion (-159.2 per cent of GDP). This reflects a net incurrence of external financial liabilities or net borrowing of capital relative to previous quarters. In this context, the net IIP deteriorated by US$276.0 million (2.3 per cent of GDP) relative to the June 2014 quarter and US$997.0 million (11.8 per cent of GDP) relative to the September 2013 quarter (Table 1).

The deterioration in the IIP for the quarter was largely due to a strong increase of US$772.0 million in financial liabilities which was partially offset by an increase of US$446.0 million in financial assets.

In this context, the main sources of the deterioration in the IIP for the September 2014 quarter included stronger inflows from portfolio investments, increased inward foreign direct investment as well as net incurrence of external loan obligations.

Table 1 International Investment Position (USD Millions)

International Investment Position -September 2013 to September 2014 (USD Millions)							
	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Annual Change	Quarterly Change
Net Position	**(20 416)**	**(20 582)**	**(20 991)**	**(21 137)**	**(21 413)**	**(997)**	**(276)**
IIP-to-GDP Ratio	***-147.4%***	***-150.9%***	***-154.5%***	***-157.0%***	***-159.2%***	***-11.8%***	***-2.3%***
Assets	**5 923**	**6 259**	**6 203**	**6 720**	**7 166**	**1 242**	**446**
Direct investment	***435***	***316***	***316***	***312***	***313***	***(122)***	**1**
Portfolio investment	***1 534***	***1 612***	***1 686***	***2 117***	***2 107***	***573***	**(10)**
Equity & investment fund shares	*162*	*168*	*163*	*237*	*243*	*81*	6
Debt securities	1 372	1 444	1 522	1 880	1 864	492	(15)
Financial derivatives	***98***	***98***	***34***	***26***	***20***	***(78)***	**(6)**
Other investment	***2 143***	***2 417***	***2 119***	***2 248***	***2 010***	***(133)***	**(238)**
o/w Currency and Deposits	1 757	2 072	1 769	1 901	1 673	(84)	(228)
o/w Loans	331	291	295	286	276	(55)	(10)
Reserve assets	***1 714***	***1 818***	***2 049***	***2 017***	***2 715***	***1 002***	**699**
Liabilities	**26 340**	**26 841**	**27 194**	**27 857**	**28 579**	**2 239**	**722**
Direct investment	**12 626**	**12 785**	**12 970**	**13 175**	**13 333**	***707***	**158**
Portfolio investment	**3 146**	**3 205**	**3 250**	**3 423**	**4 175**	***1 029***	**752**
Equity & investment fund shares	483	459	509	507	489	7	(18)
Debt securities	2 663	2 746	2 741	2 916	3 686	1 023	770
Financial derivatives	***85***	***92***	***26***	***23***	***19***	***(66)***	**(4)**
Other investment	***10 483***	***10 760***	***10 948***	***11 235***	***11 052***	***568***	**(183)**
o/w Currency and Deposits	667	636	631	697	667	(1)	(31)
o/w Loans	8 842	9 141	9 327	9 542	9 461	620	(81)

However, the impact of these was partly offset by greater holdings of external assets largely in the form of a higher stock of reserve assets as well as greater investments in external portfolio assets by domestic investors. Of note, the significant increase in the reserve assets broadly reflected the proceeds of the US$800.0 million Eurobond issued in the September 2014 quarter.

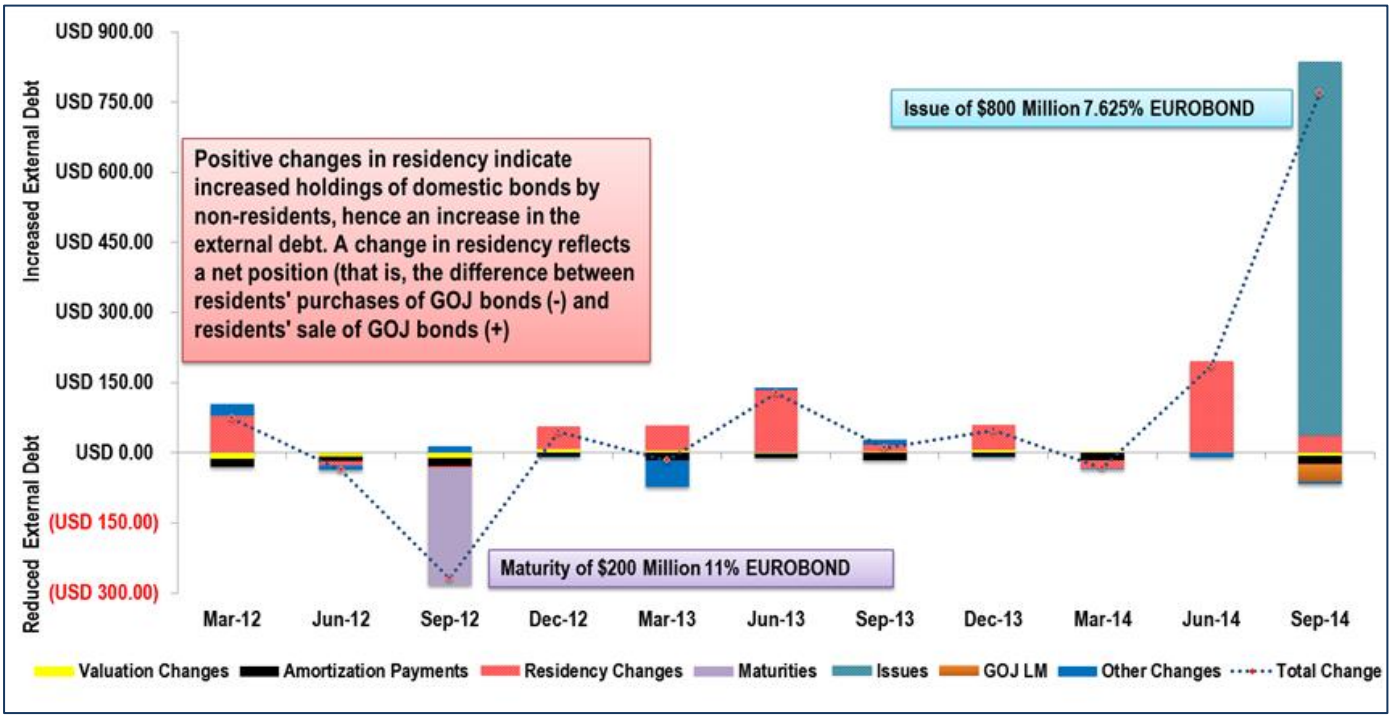
Portfolio Investment

Net portfolio inflows amounted to US$2.1 billion for the September 2014 quarter. This reflects respective increases in net inflows of portfolio investment of US$761.0 million relative to the June 2014 quarter and US$456.0 million relative to the September 2013 quarter.

The outturn for the September 2014 quarter was primarily attributable to net inflows of approximately US$979.0 million via foreign investors' acquisition of the US$800.0 million Eurobond floated on the international capital markets on 09 July 2014 and secondary market acquisition of previously floated sovereign and corporate bonds (Figure 2). However, the impact of these inflows was partly offset by increased investment in externally issued securities by resident private investors.

Figure 2 illustrates the evolution of the portfolio liabilities resulting from sovereign and Government guaranteed corporate bonds. Notably, much of the change in portfolio liability results from the acquisition of domestic bonds by

Figure 2: Composition of Changes in Jamaica's External Bond Liability



non-residents on both the primary and secondary market. Changes in the liabilty due to valuation and other changes remained relatively small between March 2012 and September 2014. Given the increasingly large net portfolio liabilities, led by foreign acquisition of Jamaican sovereign and corporate bonds, differences between the yields on liabilities (Government of Jamaica (GOJ) Global and Corporate bond yields) and assets have an increasingly important role to play in the evolution of net investment income (expense) and hence the IIP (see Figure 3).

Foreign Direct investment

Jamaica's net inward foreign direct investment position increased by US$829.0 million to US$13.02 billion for the September 2014 quarter relative to the corresponding period of September 2013.

The change in the stock of direct investment solely reflects inward FDI flows given that outward FDI investments fell for the period. In this context, the FDI liabilities increased by US$707.0 million to US$13.3 billion for September 2014 relative to September 2013. While inward FDI continues to rise, outward FDI is plateauing, declining by US$122.0 million to US$313 million for September 2014 relative to the corresponding quarter of the previous year (see Figure 4).

FDI Inflows for the period was largely composed of new equity inflows to the Infrastructure and Tourism sectors (see Figure 5). The annual increase in FDI (equity) liability relative to portfolio liability indicates foreign investor's preferences for high yield direct investment assets.

Figure 3 Bond Yields and Net Portfolio Inflows

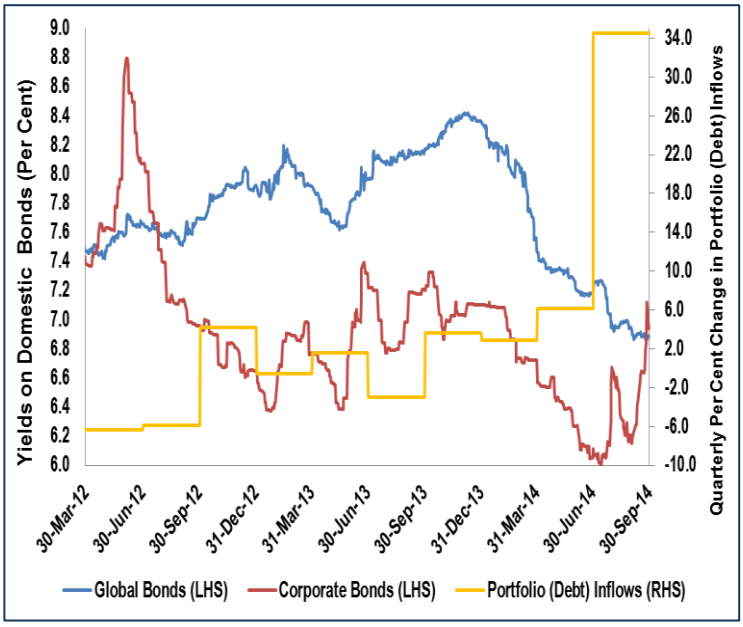
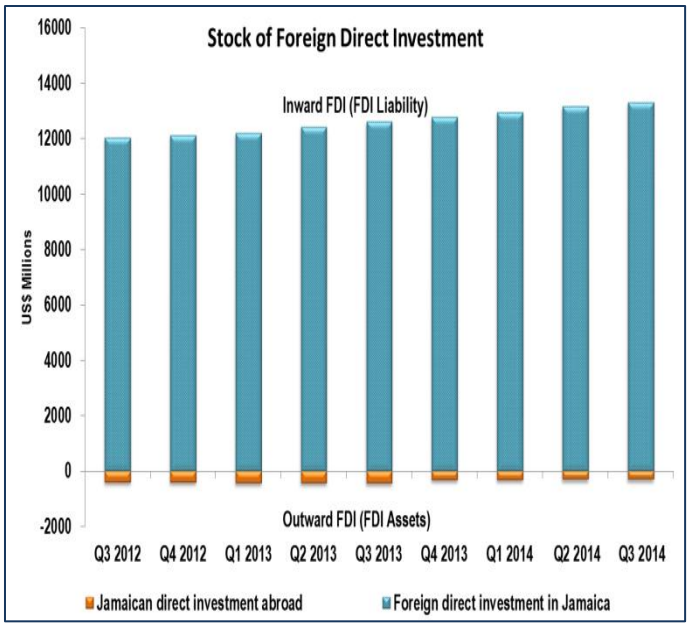


Figure 4 Stock of Inward Direct Investment



Furthermore, the inflows of new equity FDI is an indication that foreign investment projects are still in the expansion phase as opposed to the saturation phase when FDI inflows would have largely reflected reinvested earnings.

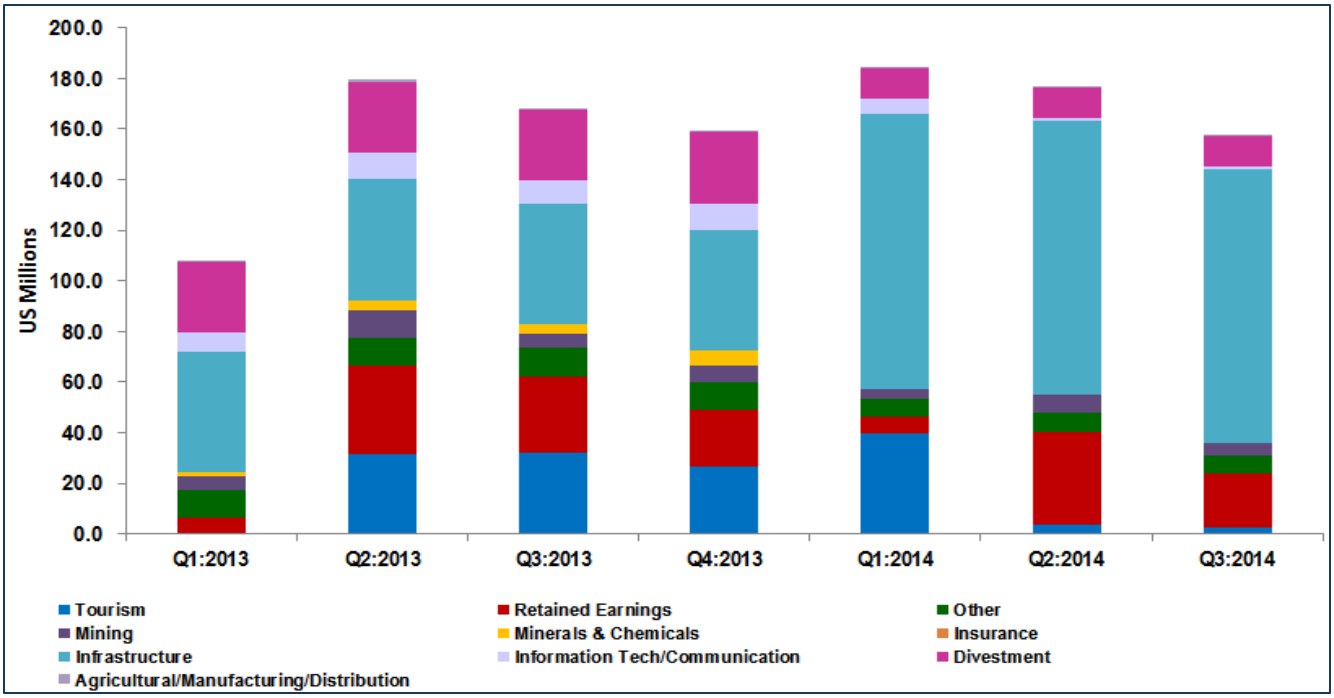
Other Investment

The deterioration in the IIP was also fuelled by net incurrences of loan obligations in the quarter. The stock of loan liability increased by $520.0 million to US$9.5 billion at end September 2014 relative to September 2013. Of this increase, approximately US$370.0 million was incurred by the Government via receipt funds received from multinational and other organizations to finance development projects.

Other loan liabilities incurred by the private banking and non-banking financial sector amounted to US$150.0 million.

For the September 2014 quarter, net currency and deposits declined by US$83.0 million and US$197.0 million for the September quarter relative to the June 2014 quarter and September 2013 quarter, respectively. The decline in the currency stock largely reflected individuals and banking institutions drawdown on the stock of deposits stored in external financial institutions. This was however, partly offset by a marginal decline in currency liabilities held by non-residents in domestic financial institutions.

Figure 5 Inward Direct Investment Inflows by Economic Sectors



Financing the Current Account Deficit

An assessment of the three main sources of capital flows indicates that the main source of financing has been FDI flows and to a lesser extent, financing from portfolio flows and bank lending.

Figure 6 shows that evolution in these sources of financing. FDI flows average approximately 1.2 per cent of GDP quarterly, while inflows from bank lending and portfolio investment accounts for an average of 1.1 and 0.2 per cent of GDP per quarter, respectively.[1]

The pattern of FDI investments suggests that it is a more sustainable and less volatile source of financing for the current account. Notwithstanding the sharp inflow of portfolio investments in the September 2014 quarter (5.8 per cent of GDP), these flows typically account for a smaller proportion financing for the current account compared to FDI. This means that the relative contribution of portfolio investment to growth is minimal. Portfolio investment is also volatile and to a large extent depends on the participation of Government and other private entities in the international capital markets. This is evidenced by the sharp inflow surges in the December 2012 and September 2014 quarters. With the exception of these periods, portfolio flows have been predominantly directed outwards, as private domestic investors deleverage debt positions and net invest in equity and debt issued by external companies and sovereigns.

In summary, the Net IIP was -159.24 per cent of GDP at end-September 2014. This reflects a movement of 9.95 per cent of GDP relative to the September 2013 quarter (figure 7).

[1] This assessment reflects the quarterly average between September 2012 and September 2014.

Figure 6 Sources of Financing for the CAD

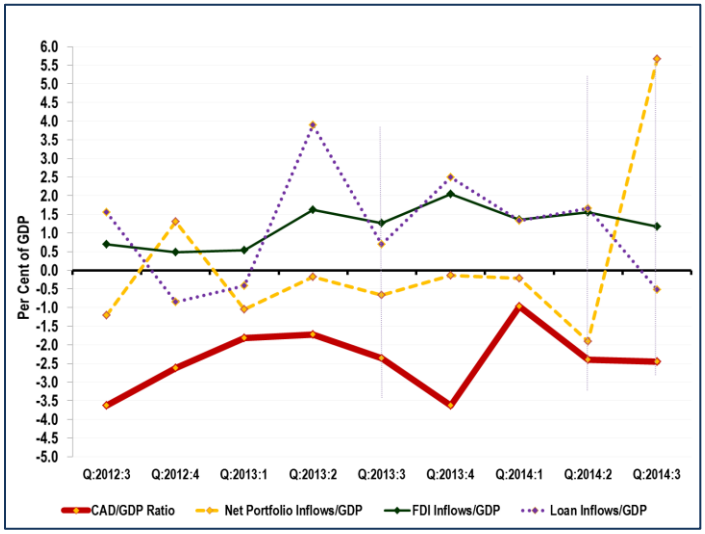


Figure 7 Net IIP and IIP to GDP Ratio