

**Quarterly
International Investment Position
Report**



JUNE 2016 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.

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

Net International Investment Position (USD Millions)							
	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Quarterly Change	Annual Change
Net Position	(20 842.5)	(20 347.4)	(21 224.6)	(20 799.0)	(20 765.7)	33.2	76.7
IIP-to-GDP Ratio (%)	(148.4)	(144.1)	(149.3)	(146.1)	(146.3)	(0.2)	2.1
Net Direct investment	(13 355.2)	(13 622.5)	(13 852.1)	(14 094.9)	(13 979.2)	115.7	(623.9)
Net Portfolio investment	(1 308.1)	(3 443.3)	(3 960.2)	(3 627.5)	(3 839.8)	(212.3)	(2 531.7)
Equity and investment fund shares	(414.3)	(438.3)	(952.7)	(907.5)	(962.7)	(55.2)	(548.4)
Debt securities	(893.7)	(3 005.0)	(3 007.5)	(2 720.0)	(2 877.1)	(157.0)	(1 983.3)
o/w Government issued securities	(2 681.6)	(4 579.2)	(4 455.8)	(4 261.0)	(4 455.0)	(194.0)	(1 773.4)
Private debt securities	1 787.8	1 574.3	1 448.3	1 540.9	1 577.9	37.0	(209.9)
Net Financial derivatives	20.3	19.7	27.5	12.6	27.9	15.3	7.5
Net Other investment	(8 736.8)	(6 191.8)	(6 353.8)	(5 983.5)	(5 794.6)	188.9	2 942.2
o/w Currency and Deposits	889.1	718.0	802.8	1 011.1	1 039.6	28.4	150.5
Loans	(8 894.1)	(6 177.6)	(6 419.0)	(6 247.4)	(6 101.3)	146.0	2 792.8
SDR Liabilities	(368.0)	(367.3)	(362.6)	(368.6)	(366.0)	2.6	2.0
Reserve assets	2 537.3	2 890.5	2 914.1	2 894.3	2 819.9	(74.4)	282.6

1/ Figures in brackets represent net liabilities or capital inflows.

¹ The change in the IIP-GDP-Ratio relative to the March 2016 quarter reflects a change in methodology..

The net international investment position (IIP) was **US\$20 765.7.8 million (146.3 per cent of GDP)** at end Q2 2016 (See **Table 1**). This reflects an improvement of **US\$33.2 million (0.2 percentage points)** from the position at end-March 2016. The improvement in the net external position resulted from an increase of **US\$299.5 million** in the stock of assets which was partially offset by an increase of **US\$266.3 million** in the stock of liabilities (see **Table 2**).

Specifically, the change in net IIP for the quarter was largely due to an increase in the stock of *Net Portfolio Investment* liabilities of **US\$212.3 million**, a decrease in *Inward Direct Investment* liabilities of **US\$115.7 million** and a decline of **US\$74.4 million** in the *Gross Reserve Assets*. However,

partially offsetting the impact of these transactions was a decline of **US\$188.9 million** in *Net Other Investments assets*.

On an annual basis, the net IIP improved by **US\$76.7 million (2.1 percentage points)**. The annual improvement of the IIP occurred in the context of a net improvement in the other investment sub-category of **US\$2 942.2 million** which was driven mainly by a reduction of **US\$2 792.8 million** in the stock of loans liability. Which represented repayment to PDVSA. This improvement was offset by an increase in Portfolio investment liabilities of **US\$2 531.7 million**, particularly due to the Issuance of GOJ debt securities as well as inward Direct Investment of **US\$623.9 million**.

Table 2 Net International Investment Position Summary Table (USD Millions)

International Investment Position (USD Millions)							
	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Quarterly Change	Annual Change
Net IIP (Assets - Liabilities)	(20 842.5)	(20 347.4)	(21 008.6)	(20 799.0)	(20 765.7)	33.2	76.7
IIP-to-GDP Ratio (%)	(148.4)	(144.1)	(147.7)	(146.1)	(146.3)	(0.2)	2.1
Assets	7 595.7	7 610.9	7 628.5	7 862.2	8 161.8	299.5	566.1
Direct investment	311.5	318.0	318.8	312.3	532.7	220.4	221.2
Portfolio investment	2 734.8	2 506.7	2 410.8	2 491.7	2 556.9	65.1	(178.0)
Equity and investment fund shares	281.6	280.9	285.7	293.5	287.5	(6.0)	5.9
Debt securities	2 453.2	2 225.9	2 125.1	2 198.2	2 269.3	71.1	(183.9)
Financial derivatives	41.4	40.0	44.4	28.8	32.3	3.5	(9.1)
Other investment	1 970.7	1 855.8	1 940.4	2 135.0	2 220.0	84.9	249.3
o/w Currency and Deposits	1 555.2	1 411.6	1 481.2	1 698.0	1 750.2	52.2	195.0
Loans	241.5	272.1	291.3	270.5	301.3	30.8	59.8
Insurance, Pension and Standardized guarantee Schemes	11.9	11.6	9.3	9.5	12.1	2.6	0.2
Trade Credit and Advances	25.8	26.5	25.5	24.4	23.2	(1.3)	(2.6)
Other accounts receivable/Other	136.3	134.0	133.2	132.5	133.2	0.7	(3.1)
Reserve assets	2 537.3	2 890.5	2 914.1	2 894.3	2 819.9	(74.4)	282.6
Liabilities	28 438.2	27 958.4	28 637.1	28 661.2	28 927.5	266.3	489.3
Direct investment	13 666.7	13 940.5	14 170.9	14 407.2	14 511.8	104.7	845.1
Portfolio investment	4 042.9	5 950.0	6 371.0	6 119.3	6 396.6	277.4	2 353.8
Equity and investment fund shares	695.9	719.2	1 238.4	1 201.0	1 250.2	49.2	554.3
Debt securities	3 347.0	5 230.8	5 132.6	4 918.3	5 146.4	228.1	1 799.5
o/w Govt. Issued Securities	2 681.6	4 579.2	4 455.8	4 261.0	4 455.0	194.0	1 773.4
Financial derivatives	21.1	20.3	16.9	16.3	4.5	(11.8)	(16.6)
Other investment	10 707.5	8 047.6	8 078.3	8 118.5	8 014.6	(103.9)	(2 693.0)
o/w Currency and Deposits	666.1	693.6	678.4	686.9	710.6	23.7	44.5
Loans	9 135.6	6 449.7	6 494.3	6 517.9	6 402.7	(115.2)	(2 732.9)
Insurance, Pension and Standardized guarantee Schemes	45.2	44.0	48.6	56.8	47.4	(9.5)	2.2
Trade Credit and Advances	409.9	409.4	409.5	405.2	404.8	(0.4)	(5.1)
Other accounts payable/Other	82.7	83.6	85.0	83.0	83.1	0.0	0.4
SDR Allocation from the IMF	368.0	367.3	362.6	368.6	366.0	(2.6)	(2.0)

Foreign Direct Investment

Estimates for the June 2016 quarter indicated *Net outward Direct Investment* flows of **US\$115.7 million** relative to the revised estimate of **US\$242.8 million** for the March 2016 quarter (see **Figure 1**). The flows for the quarter brought the stock of *Net Direct Investment* liabilities to **US\$13.97 billion** at end-June 2016 relative to stock of **US\$14.1 billion** at end-March 2016 (see **Figure 1**).

Direct Investment flows in Q2 2016 largely reflected developments on the stock market during the review quarter. Included in *Direct Investments* was the merger/acquisition a number of resident entities by non-resident investors. Coversely, the June quarter saw a significant investment in a non-resdeint entity by resident investor. Other sources of investment include inflows to the Toursim sector and reinvested profits (see **Figure 2**).

For FY2015/16 the stock of net inward direct investment rose by **US\$943.3 million**. Similar to the quarterly profile, inward direct investment flows for the year largely reflected significant investments in domestic companies by non-resident investors, profit re-investments and inflows to the Tourism industry.

Figure 1: Quarterly Change in the Stock of Net Direct Investment (US\$ Millions)

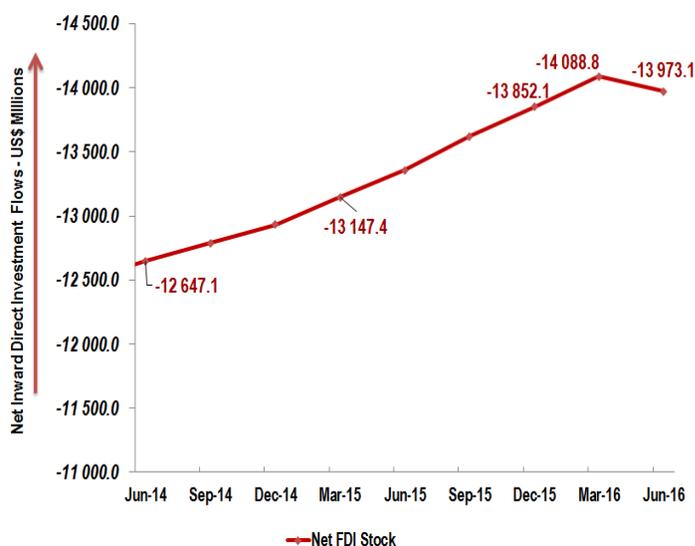
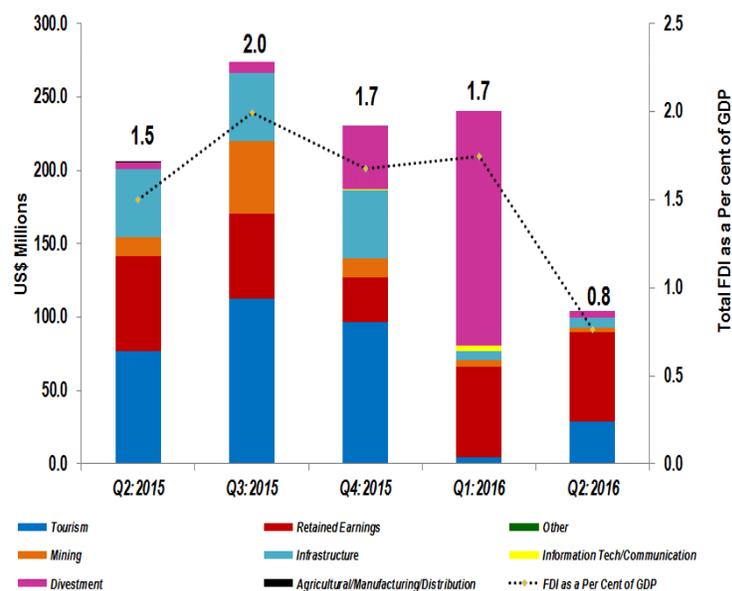


Figure 2: Inward Direct Investment by Sector (US\$ Millions)



Portfolio Investment

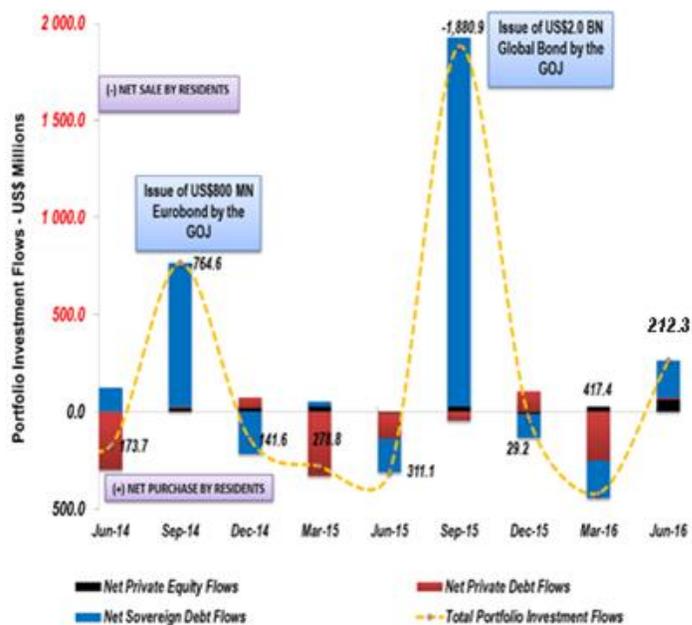
The stock of *Net Portfolio Investment* liabilities surged to **US\$3 839.8 million** at end June 2016 from the stock of **US\$3 627.5 million** at end-March 2016 (see **Table 1**). This reflected an increase of **US\$212.3 million** in the portfolio related claims that non-residents have on Jamaican residents.

The change in the outstanding portfolio investment liabilities for the period primarily reflected an increase of **US\$157 million** in the outstanding debt security liabilities (see **Table 1**). This movement was primarily due to a decline in resident investors' holdings of GOJ global bonds by **US\$216.57 million**. Net sale of GOJ Global bonds in the June 2016 quarter largely reflected a portfolio rebalancing strategy as investors seek to invest in shorter tenure instruments.² This was supported by an increase of **US\$37.0 million** in domestic investors holdings of foreign issued securities and other securities.

On an annual basis, Portfolio Investment liabilities increased by **US\$2 531.7 million**. The change in the outstanding portfolio investment liabilities for the period reflected an increase of **US\$1 983.3 million** in the stock of outstanding debt security liabilities. This largely due to the net issue of GOJ

Global bonds during the period. In addition, there was an increase of **US\$548.4 million** in the stock of equity investment liabilities (see **Table 1**).

Figure 3: Quarterly Flows from Portfolio Investments (USD Millions)



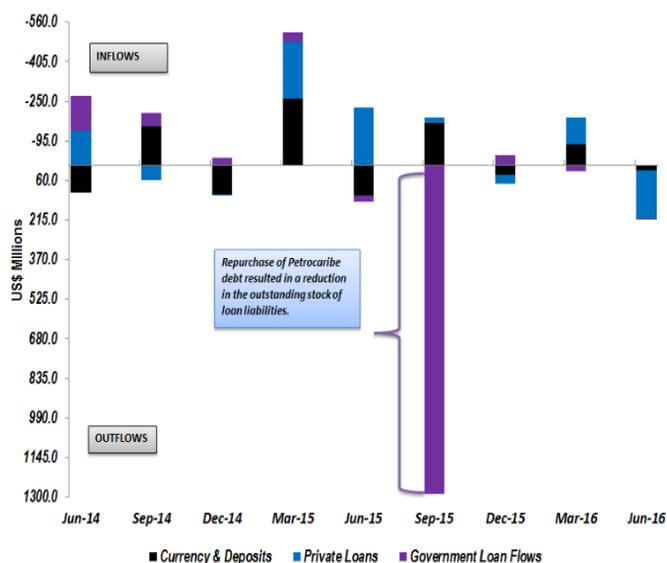
² For FY2015/16 net purchase of GOJ Globals by residents amounted to **US\$477.4 million** relative to a net sale of **US\$138.5million** for FY2014/15.

Other Investment

The stock of *Net Other Investment liabilities* at end-June 2016 was **US\$5 794.6 million** (see **Table 3**). This reflects an improvement of **US\$188.9 million** relative to end-March 2016. The decrease in *Other Investments* was attributable to a decrease of **US\$146.0 million** in the stock of loan liabilities by the public and private sector. Additionally, there was a buildup of **US\$28.4 million** in deposits held abroad by residents.

On an annual basis, the stock of *Other Investment liabilities* declined by **US\$2 942.2 million**. This largely reflects a decline of **US\$2 792.8 million** in the stock of loan liabilities mainly reflecting the repayment of loans to *Petróleos de Venezuela, S.A (PDVSA)* during the September 2015 quarter. This was supported by a build-up of **US\$150.5 million** in deposits held abroad by the private sector and well as a reduction in the stock of receivables outstanding (See **Table 2**).

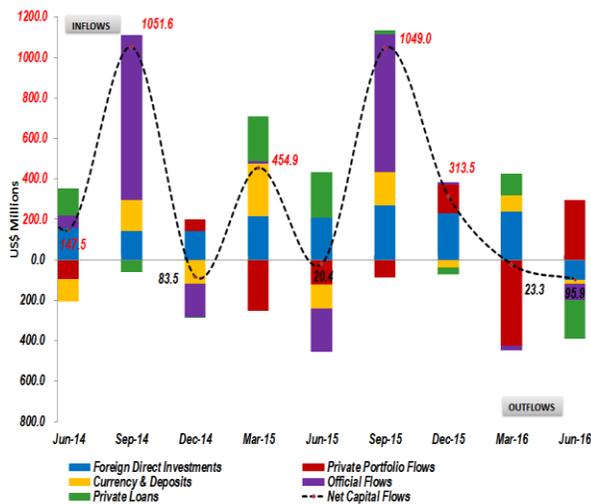
Figure 4 : Quarterly Cross Border Banking Flows (USD Millions)



Dynamics of the Current Account Financing

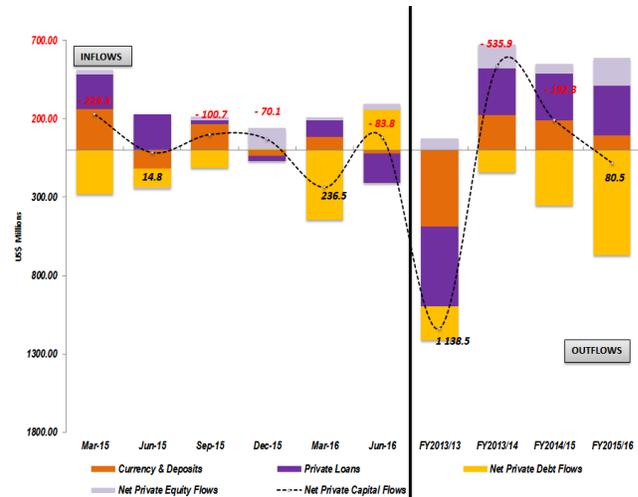
The June 2016 quarter recorded a current account deficit of **US\$29.8 million (0.2 per cent of GDP)**. The current account for the quarter was financed by *net capital inflows* to **US\$95.9 million** for the quarter (See **Figure 5**). Despite the excess in available financing, there was a drawdown of **US\$74.4 million** in the gross reserve assets for the quarter.

Figure 5: Net Capital Flows (US\$ Millions)³



With regards to capital flows, the sole source of capital inflows for the quarter were net investment portfolio investment flows of **US\$293.6 million**. This inflows occurred in the context as investors repositioned their portfolio in a bid to take advantage of existing investment opportunities. Capital outflows on the other hand, mainly emanated from domestic financial assets abroad – net outward direct investment - of **US\$115.7 million** and net outflows from cross-border banking of **US\$209.9 million**. Of note, Non-FDI Private Capital flows amounted to of **US\$83.8** for the quarter.⁴

Figure 6: Non-FDI Private Capital Flows (US\$ Millions)



Though an important source of financing for the current account, non-FDI private capital flows continue to be volatile. Financing from this source have deteriorated for FY2015/16 relative to FY2014/15. For the FY2015/16, there was an estimated outflow of **US\$80.5 million** from a net private capital relative to inflow of **US\$192.3 million** for FY2014/15. This improvement in capital inflows may be a sign of improved confidence in the economy.

³ Total capital flows' is defined as the sum of FDI, private portfolio flows, official flows and cross-border banking flows.

⁴ Net private capital flows is the sum of net cross-border banking flows and net private portfolio flows (debt and equity).

Glossary⁵

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).

⁵ 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>

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