

Quarterly
International Investment Position
Report



MARCH 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)

Net International Investment Position (USD Millions)							
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Quarterly Change	Annual Change
Net Position	(20 614.5)	(20 838.8)	(20 334.4)	(21 036.2)	(21 157.7)	(121.5)	(543.2)
IIP-to-GDP Ratio (%)	(148.2)	(150.7)	(150.3)	(154.7)	(156.5)	(1.8)	(8.3)
Net Direct investment	(13 153.0)	(13 351.5)	(13 609.4)	(13 862.9)	(14 099.3)	(236.4)	(946.3)
Net Portfolio investment	(1 508.2)	(1 308.1)	(3 443.3)	(3 950.3)	(3 617.8)	332.5	(2 109.6)
Equity and investment fund shares	(327.6)	(414.3)	(438.3)	(950.8)	(908.5)	42.4	(580.9)
Debt securities	(1 180.6)	(893.7)	(3 005.0)	(2 999.5)	(2 709.3)	290.2	(1 528.6)
o/w Government issued securities	(2 854.3)	(2 681.6)	(4 579.2)	(4 455.8)	(4 261.0)	194.9	(1 406.7)
Private debt securities	1 673.6	1 787.8	1 574.3	1 456.4	1 551.7	95.3	(122.0)
Net Other investment	(8 643.0)	(8 736.8)	(6 191.8)	(6 164.6)	(6 347.5)	(182.9)	2 295.5
o/w Currency and Deposits	739.5	889.1	718.0	802.8	721.9	(80.9)	(17.7)
Loans	(8 655.0)	(8 894.1)	(6 177.6)	(6 203.0)	(6 289.4)	(86.5)	2 365.5
SDR Liabilities	360.9	368.0	367.3	362.6	368.6	6.0	7.7
Reserve assets	2 689.7	2 537.3	2 890.5	2 914.1	2 894.3	(19.8)	204.6

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

Preliminary estimates indicate that the net international investment position (IIP) was **US\$21 517.7 million** at end Q1 2016 (See Table 1). This reflects a deterioration of **US\$121.5 million (1.8 per cent of GDP)** from the position at end-December 2015. The deterioration in the investment position was due to an increase of **US\$73.7 million** in the stock of liabilities and a decline of **US\$47.8 million** in the stock of assets (see Appendix 1).

The outturn for the quarter includes net financial transactions of **US\$71.8 million**. Other changes in position which includes price changes, exchange rate changes and other changes in volume and valuation also contributed to the deterioration in the net position. Specifically, the change in net IIP for the quarter was largely due to an increase in the stock of Inward *Direct Investment* liabilities of **US\$236.4 million** as well as an increase in *Other*

Investments liabilities of **US\$182.4 million**. However, partially offsetting the impact of these transactions was decline of **US\$332.5 million** in the stock of *Net Portfolio Investment liabilities* outstanding.

For FY2015/16, the net IIP deteriorated by **US\$553.2 million (8.3 per cent of GDP)**. The annual change largely reflects net financial transactions – the incurrence of external liabilities during FY2015/16 which exceeded the acquisition of external assets. Net financial transactions amounted to **US\$350.4 million** for FY2015/16. This indicates that net impact of valuation, exchange rate and other volume changes approximated to **-US\$893.6 million**, resulting in the deterioration for the year.

The FY2015/16 deterioration of the IIP occurred in the context of higher portfolio investment liabilities

of **US\$2 109.6 million** due to the 2015 sovereign bond issue of **US\$2.0 billion**, and to a lesser extent the strong performance of the stock market in Q4 2015 which saw an increase of **US\$580.9 million** in the net holdings of equity investments by non-resident investors.¹ There were also inflows of **US\$946.3 million** in direct investment. The impact of these transactions was partially offset by a reduction of **US\$2.3 billion** in the outstanding stock of loans – mainly reflecting the repurchase of the outstanding PetroCaribe debt stock.

Foreign Direct Investment

Preliminary estimates for the March 2016 quarter indicated *Net Inward Direct Investment* flows of **US\$236.4 million** relative to the revised estimate of **US\$253.4 million** for the December 2015 quarter (see **Figure 1**). The flows for the quarter brought the stock of *Net Direct Investment* liabilities to **US\$14.1 billion** at end-March 2016 relative to stock of **US\$13.9 billion** at end-December 2015 (see **Figure 1**).

Direct Investment flows in Q1 2016 largely reflected developments on the Jamaica Stock Exchange during the review quarter. Included in *Direct Investments* was approximately **US\$137.4 million** which reflects the acquisition of equity in Desnoes & Geddes Ltd. by Diageo PLC. Other sources of investment include inflows to the

¹ See Bank of Jamaica, Quarterly Monetary Policy Report- December 2015 quarter

Tourism sector and reinvested profits (see **Figure 2**).

For FY2015/16 the stock of net inward direct investment rose by **US\$909.3 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)

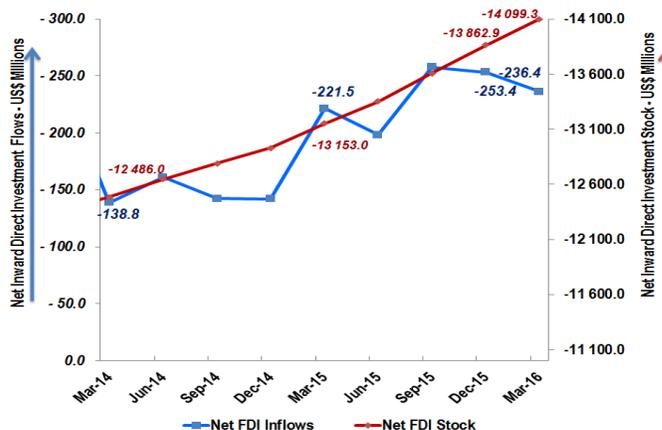
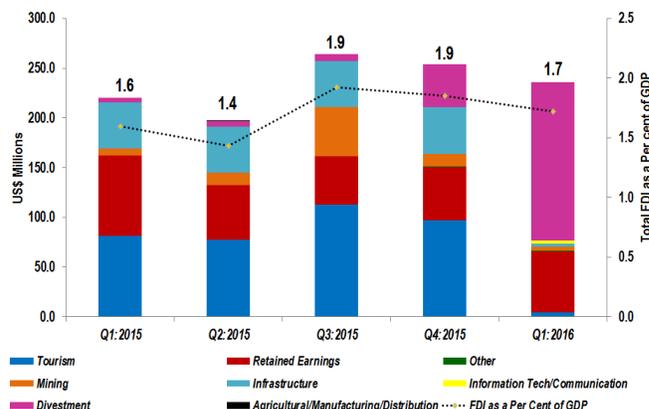


Figure 2: Inward Direct Investment by Sector (US\$ Millions)



Portfolio Investment

The stock of *Net Portfolio Investment* liabilities declined to **US\$3 617.8 million** at end March 2016 from the stock of **US\$3 950.3 million** at end-December 2015 (see **Table 1**). This reflected a reduction of **US\$332.5 million** in the portfolio related claims that non-residents have on Jamaican residents.

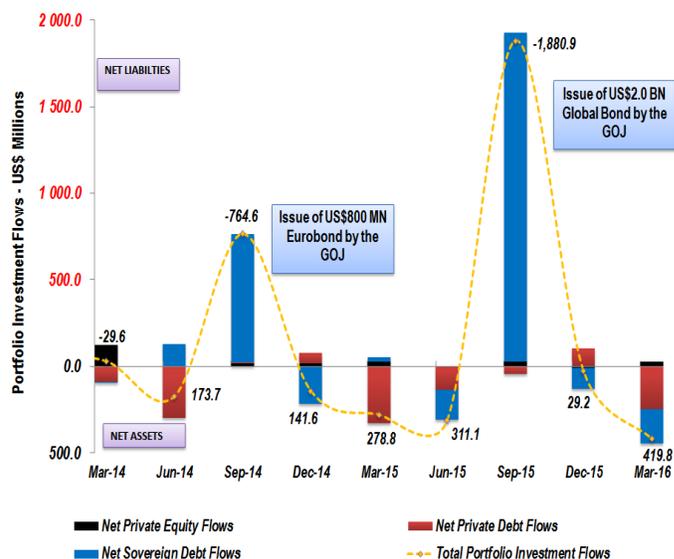
The change in the outstanding portfolio investment liabilities for the period primarily reflected a decline of **US\$290.2 million** in the outstanding debt security liabilities (see **Table 1**). This movement was due to an increase in secondary market trading which resulted in non-residents reducing their holdings of GOJ global bonds by **US\$194.9 million**. Net sale of GOJ Global bonds in the March 2016 quarter reflected the third consecutive quarter of portfolio shifting by non-residents.² This was supported by an increase of **US\$95.3 million** in domestic investors holdings of foreign issued securities.

For FY2015/16, portfolio investment liabilities increased by **US\$2 109.6 million**. The change in the outstanding portfolio investment liabilities for the period reflected an increase of **US\$1 528.6 million** in the stock of outstanding debt security

² For FY2015/16 net sale of GOJ Globals by non-residents amounted to **US\$347.3 million** relative to a net purchase of **US\$210.4 million** for FY2014/15.

liabilities. This occurred in the context of a capital market issue of **US\$2.0 billion** in 2015 by the GOJ to finance the repurchase of the outstanding Petrocaribe debt stock. In addition, there was an increase of **US\$580.9 million** in the stock of equity investment liabilities (see **Table 1**). The movement in the equity liabilities reflected the strong performance of the Jamaican stock market in the December 2015 quarter. The value of non-resident equity investments increased significantly during 2015 primarily as a result of the high capital gains. The movement in prices on the stock market in the Q4 2015 was indicative of strong market fundamentals as a number of firms saw improved earnings during the period.³

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



³ See Bank of Jamaica, *Quarterly Monetary Policy Report- December 2015 quarter*

Other Investment

Table 2 Stock of Net Other Investments (USD Millions)

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-15	Quarterly Change	Annual Change
Net Other investment	(8 643.01)	(8 736.82)	(6 191.77)	(6 164.62)	(6 347.54)	(182.93)	2 295.47
<i>Cross Border Despoits</i>	739.53	889.11	718.01	802.79	721.87	(80.92)	(17.66)
<i>Loans</i>	(8 654.97)	(8 894.13)	(6 177.58)	(6 202.96)	(6 289.42)	(86.46)	2 365.55
<i>Insurance & Pension</i>	(34.76)	(33.30)	(32.34)	(39.53)	(45.62)	(6.09)	(10.87)
<i>Trade Credit and Advances</i>	(384.12)	(384.11)	(382.90)	(383.96)	(387.25)	(3.29)	(3.14)
<i>Payables/receivables</i>	52.23	53.59	50.33	21.61	21.49	(0.11)	(30.74)
<i>SDR Allocation from the IMF</i>	(360.93)	(367.97)	(367.28)	(362.56)	(368.60)	(6.04)	(7.67)

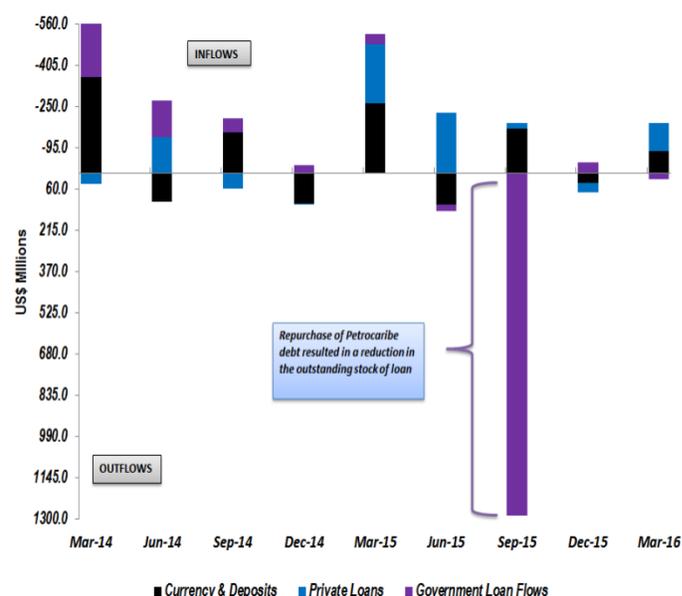
1/ Negative (-) values reflect net liabilities; positive (+) values reflect net assets

The stock of *Net Other Investment liabilities* at end-March 2016 was **US\$6 347.2 million** (see **Table 2**). This reflects an increase of **US\$182.9 million** relative to end-December 2015. The increase in *Other Investments* was attributable to an increase of **US\$86.5 million** in the stock of loan liabilities by the public and private sector. Additionally, there was a drawdown of **US\$80.9 million** in deposits held abroad by residents.

For FY2015/16, the stock of *Other Investment liabilities* declined by **US\$2 295.8 million**. This largely reflects a decline of **US\$2 365.6 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. However, offsetting financial transactions stemmed from the

withdrawal of **US\$17.7 million** in deposits held abroad by the private sector and well as a reduction in the stock of receivables outstanding (See **Table 2**).

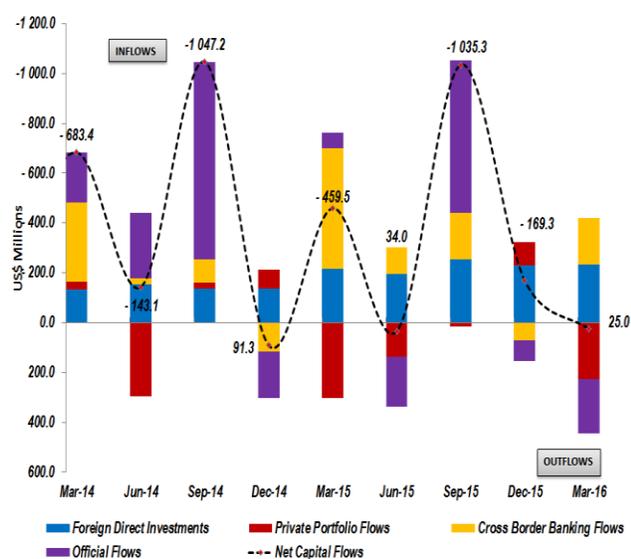
Figure 4 : Quarterly Cross Border Banking Flows (USD Millions)



Financing the Current Account

The March 2016 quarter recorded a current account surplus of **US\$116.3 million (0.8 per cent of GDP)** for the March 2016 quarter. The current account surplus for the quarter was supported by *net capital inflows* to **US\$25.0 million** for the quarter (See **Figure 5**). These developments in the financial account facilitated a build-up of **US\$19.8 million** in the gross reserve assets for the quarter.

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

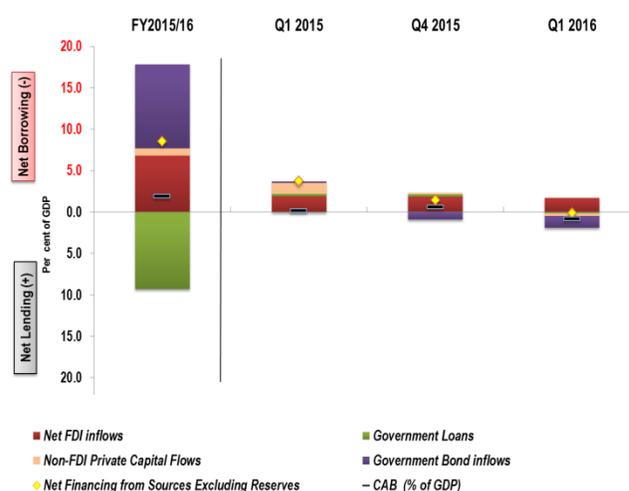


2/ 'Total capital flows' is defined as the sum of FDI, private portfolio flows, official flows and cross-border banking flows.

With regards to capital flows, the sole source of capital inflows for the quarter were net direct investment flows of **US\$236.4 million (1.7 per cent of GDP)** - (see **Figure 6**). Capital outflows on the other hand, mainly emanated from domestic

investors' net purchase of GOJ global bonds of **US\$123.3 million** in Government bonds; Non-FDI Private Capital flows of **US\$36.8 million (0.3 per cent of GDP)** and loans of **US\$24.9 million (0.2 per cent of GDP)**.⁴

Figure 6: Main Sources of Capital Flows (Per cent of GDP)



Though an important source of financing for the current account, non-FDI private capital flows continue to be volatile. However, inflows from this source have improved for FY2015/16 relative to FY2014/15. For the FY2015/16, a net private capital inflow is estimated at **US\$125.6 million** relative to inflow of **US\$93.5 million** for FY2014/15. This improvement in capital inflows may be a signal of improved confidence in the domestic economy.

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

Appendix 1

International Investment Position (USD Millions)							
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Quarterly Change	Annual Change
Net IIP (Assets - Liabilities)	(20 614.5)	(20 838.8)	(20 334.4)	(21 036.2)	(21 157.7)	(121.5)	(543.2)
IIP-to-GDP Ratio (%)	(148.2)	(150.7)	(150.3)	(154.7)	(156.5)	(1.8)	(8.3)
Assets	7 398.5	7 595.7	7 610.9	7 639.4	7 591.6	(47.8)	193.2
Direct investment	313.5	311.5	318.0	318.8	318.7	(0.1)	5.2
Portfolio investment	2 579.3	2 734.8	2 506.7	2 420.7	2 501.5	80.8	(77.8)
<i>Equity and investment fund shares</i>	259.2	281.6	280.9	287.6	292.5	4.9	33.3
<i>Debt securities</i>	2 320.1	2 453.2	2 225.9	2 133.1	2 209.0	75.9	(111.1)
Financial derivatives	1.8	41.4	40.0	44.4	28.8	(15.6)	27.0
Other investment	1 814.1	1 970.7	1 855.8	1 941.4	1 848.3	(93.1)	34.2
<i>o/w Currency and Deposits</i>	1 383.5	1 555.2	1 411.6	1 481.2	1 408.8	(72.4)	25.3
<i>Loans</i>	261.8	241.5	272.1	291.3	270.1	(21.2)	8.3
<i>Insurance, Pension and Standardized guarantee Schemes</i>	9.3	11.9	11.6	9.3	9.6	0.3	0.2
<i>Trade Credit and Advances</i>	25.5	25.8	26.5	25.5	26.1	0.6	0.6
<i>Other accounts receivable/Other</i>	134.0	136.3	134.0	134.2	133.8	(0.4)	(0.2)
Reserve assets	2 689.7	2 537.3	2 890.5	2 914.1	2 894.3	(19.8)	204.6
Liabilities	28 013.0	28 434.4	27 945.3	28 675.6	28 749.4	73.7	736.4
Direct investment	13 466.5	13 663.0	13 927.4	14 181.7	14 418.0	236.3	951.5
Portfolio investment	4 087.5	4 042.9	5 950.0	6 371.0	6 119.3	(251.7)	2 031.7
<i>Equity and investment fund shares</i>	586.8	695.9	719.2	1 238.4	1 201.0	(37.4)	614.2
<i>Debt securities</i>	3 500.8	3 347.0	5 230.8	5 132.6	4 918.3	(214.3)	1 417.5
<i>o/w Govt. Issued Securities</i>	2 854.3	2 681.6	4 579.2	4 455.8	4 261.0	(194.9)	1 406.7
Financial derivatives	1.8	21.1	20.3	16.9	16.3	(0.7)	14.4
Other investment	10 457.1	10 707.5	8 047.6	8 106.0	8 195.9	89.8	(2 261.2)
<i>o/w Currency and Deposits</i>	644.0	666.1	693.6	678.4	686.9	8.5	42.9
<i>Loans</i>	8 916.8	9 135.6	6 449.7	6 494.3	6 559.6	65.3	(2 357.2)
<i>Insurance, Pension and Standardized guarantee Schemes</i>	44.1	45.2	44.0	48.8	55.2	6.4	11.1
<i>Trade Credit and Advances</i>	409.6	409.9	409.4	409.5	413.3	3.9	3.7
<i>Other accounts payable/Other</i>	81.7	82.7	83.6	112.6	112.3	(0.3)	30.6
<i>SDR Allocation from the IMF</i>	360.9	368.0	367.3	362.6	368.6	6.0	7.7

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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