

Quarterly International Investment Position Report



DECEMBER 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)							
	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Quarterly Change	Annual Change
Net Position	(20 991.3)	(20 922.5)	(20 807.5)	(20 359.4)	(20 857.8)	(498.4)	133.6
IIP-to-GDP Ratio (%)	(147.6)	(146.8)	(146.5)	(144.0)	(149.1)	(5.1)	(1.5)
Net Direct investment	(13 852.1)	(14 115.0)	(14 097.4)	(14 279.8)	(14 416.2)	(136.4)	(564.1)
Net Portfolio investment	(3 946.3)	(3 627.5)	(3 650.5)	(3 381.7)	(3 417.5)	(35.9)	528.7
Equity and investment fund shares	(952.7)	(907.5)	(934.5)	(916.9)	(1 080.5)	(163.6)	(127.8)
Debt securities	(2 993.5)	(2 720.0)	(2 716.0)	(2 464.8)	(2 337.0)	127.7	656.5
o/w Government issued securities	(4 455.8)	(4 261.0)	(4 454.9)	(4 417.5)	(4 238.4)	179.1	217.5
Private debt securities	1 462.3	1 540.9	1 738.9	1 952.7	1 901.3	(51.4)	439.0
Net Other investment	(6 134.6)	(6 086.8)	(5 907.4)	(5 781.8)	(6 315.4)	(533.6)	(180.9)
o/w Currency and Deposits	750.6	1 030.1	1 049.8	1 193.4	792.8	(400.6)	42.2
Loans	(6 177.3)	(6 246.4)	(6 101.7)	(6 118.6)	(6 221.5)	(102.9)	(44.2)
SDR Liabilities	(362.6)	(368.6)	(366.0)	(365.2)	(351.7)	13.5	10.8
Reserve assets	2 914.1	2 894.3	2 819.9	3 056.2	3 291.5	235.3	377.4

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

At end-December 2016, the preliminary estimate of the net international investment position (IIP) was **US\$20 857.8 million (149.1 per cent of GDP)** (See Table 1). This reflects a deterioration of **US\$498.4 million (5.1 percentage points)** from the revised estimate for September 2016. The deterioration in the net external position resulted from a decline of **US\$220.8 million** in the stock of assets and an increase of **US\$277.6 million** in the stock of liabilities (see Table 2).

The change in the estimate relative to the September 2016 quarter reflects net borrowing of **US\$286.1 million** on the financial account. This was however, worsened by a revaluation of the liabilities – equity in particular – and exchange rate valuation changes.

Specifically, quarterly IIP position was largely influenced by an increase of **US\$533.6 million** in the *Other Investment Account* – which was due a drawdown of **US\$400.6 million** on deposits held abroad, loans of **US\$102.9 million**, *Inward Direct Investments* of **US\$136.4 million** and a net increase of **US\$35.9 million** in *Net Portfolio Investment* liabilities. Partially offsetting the impact of these transactions was an increase of **US\$235.3 million** in *Gross Reserve Assets*.

For 2016, the net IIP improved by **US\$133.6 million**. The annual change largely reflects the impact of a decline of **US\$528.7 million** from *Net Portfolio Investments* liabilities and increased *Gross Reserve Assets* amounting to **US\$377.4 million** over the period. There were offsetting impulses of **US\$564.1 million** from *Inward Direct Investment liabilities* and increased *Net Other Investments* liabilities of **US\$180.9 million**.

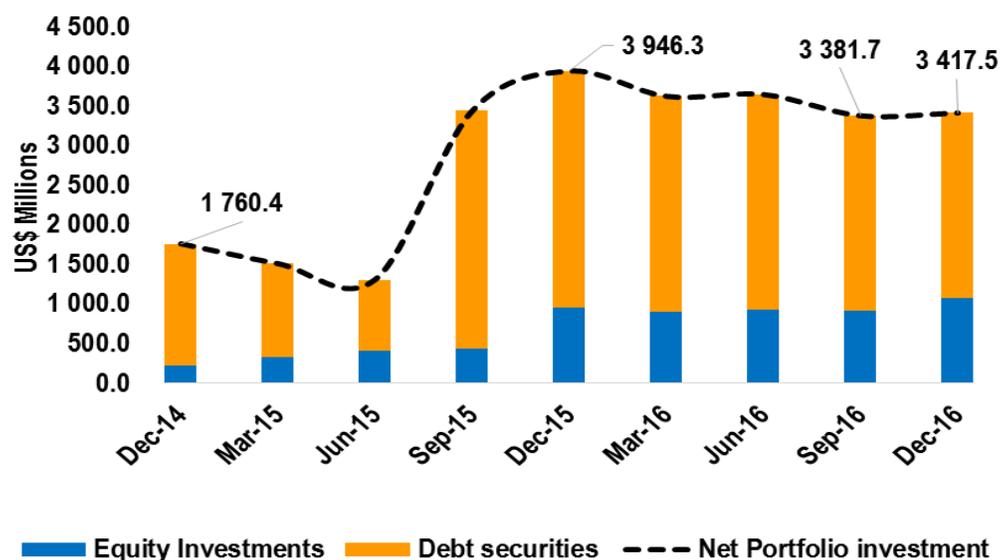
Table 2: Net International Investment Position Assets and Liabilities (USD Millions)

International Investment Position (USD Millions)							
	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Quarterly Change	Annual Change
Net IIP (Assets - Liabilities)	(20 991.3)	(20 922.5)	(20 807.5)	(20 359.4)	(20 857.8)	(498.4)	133.6
IIP-to-GDP Ratio (%)	(147.6)	(146.8)	(146.5)	(144.0)	(149.1)	(5.1)	(1.5)
Assets	7 655.2	7 911.6	8 369.4	9 001.5	8 780.6	(220.8)	1 125.4
Direct investment	318.8	322.3	533.1	533.0	545.1	12.2	226.3
Portfolio investment	2 425.0	2 491.7	2 717.5	2 937.9	2 918.9	(19.1)	493.8
Equity and investment fund shares	285.7	293.5	287.2	306.4	306.6	0.2	20.9
Debt securities	2 139.4	2 198.2	2 430.3	2 631.5	2 612.3	(19.3)	472.9
Financial derivatives	48.1	28.8	32.4	47.1	18.0	(29.1)	(30.1)
Other investment	1 949.2	2 174.4	2 266.6	2 427.3	2 007.2	(420.1)	58.0
o/w Currency and Deposits	1 444.2	1 717.0	1 759.3	1 885.7	1 475.5	(410.3)	31.3
Loans	307.6	270.5	301.4	332.2	314.2	(18.1)	6.5
Reserve assets	2 914.1	2 894.3	2 819.9	3 056.2	3 291.5	235.3	377.4
Liabilities	28 646.5	28 834.0	29 176.9	29 360.8	29 638.4	277.6	991.9
Direct investment	14 170.9	14 437.3	14 630.5	14 812.8	14 961.4	148.6	790.4
Portfolio investment	6 371.3	6 119.3	6 368.0	6 319.6	6 336.4	16.8	(34.9)
Equity and investment fund shares	1 238.4	1 201.0	1 221.7	1 223.3	1 387.1	163.8	148.7
Debt securities	5 132.9	4 918.3	5 146.3	5 096.3	4 949.3	(147.0)	(183.6)
o/w Govt. Issued Securities	4 455.8	4 261.0	4 454.9	4 417.5	4 238.4	(179.1)	(217.5)
Financial derivatives	20.6	16.3	4.5	19.3	18.0	(1.3)	(2.6)
Other investment	8 083.8	8 261.2	8 174.0	8 209.1	8 322.6	113.5	238.9
o/w Currency and Deposits	693.6	686.9	709.5	692.3	682.6	(9.6)	(10.9)
Loans	6 484.9	6 516.9	6 403.0	6 450.8	6 535.6	84.8	50.7
SDR Allocation from the IMF	362.6	368.6	366.0	365.2	351.7	(13.5)	(10.8)

Portfolio Investment

The stock of *Net Portfolio Investment* liabilities increased to **US\$3 417.5 million** at end December 2016 from the stock of **US\$3 381.7 million** at end-September 2016 (see **Figure 1**). This reflected a net increase of **US\$35.9 million** in the portfolio related claims that non-residents have on Jamaican residents.

Figure 1: Net Portfolio Investment Liabilities



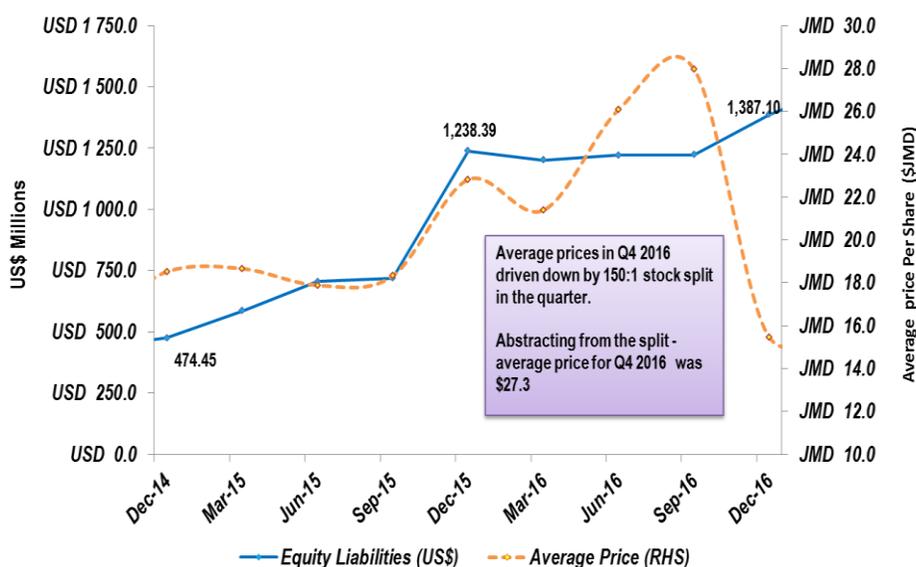
The change in the outstanding portfolio investment reflected the countervailing effects of an increase of **US\$163.6 million** in equity investment liabilities and a decline of **US\$127.7 million** in the stock of debt securities (see **Table 1**). The change in equity investments reflected higher prices for a number of stocks listed on the local stock exchange, which resulted in an increase in the value of residents liabilities to non-residents. Partially offsetting this increase is a net reduction in non-residents holdings of domestically-issued securities by **US\$127.7 million**. These movements mainly occurred in a context where: (1) domestics investors net sold **US\$51.4 million** in foreign issued securities and (2) net purchased **US\$179.1 million** of GOJ Globals from non-residents on the secondary market.

On an annual basis, *net Portfolio Investment* liabilities declined by **US\$528.7 million**. This was attributable to movements in both the international capital market and the domestic equity market. The net decline was due to a reduction of **US\$656.5 million** in net liabilities in debt securities. More specifically, this decline occurred in the context of an increase of **US\$439.0 million** in debt securities assets via residents' holdings of securities issued by foreign

governments and corporate entities. This was further supported by a decline of **US\$217.5 million** in GOJ portfolio liabilities as non-residents reduced their holdings of GOJ Global bonds during the period.

The reduction in debt securities was partially offset by an increase of **US\$127.8 million** in equity investment liabilities. This increase occurred in a context of higher prices of equities listed on the Jamaica Stock Exchange (JSE) in 2016. In this regard, the prices of domestic equities traded on the exchange increased significantly in the June and September quarters and resulted in an increase in the value of non-residents' investments in domestic stocks (see **Figure 2**).

Figure 2: Equity Liabilities of Non-residents



Direct Investment

Estimates for the December 2016 quarter indicated *Net Inward Direct Investment* flows of **US\$136.4 million** relative to the revised estimate of **US\$182.4 million** for the September 2016 quarter (see **Figure 3**). The flows for the quarter brought the stock of *Net Direct Investment* liabilities to **US\$14.42 billion** relative to stock of **US\$14.28 billion** at end-September 2016. Direct Investment flows largely reflected inflows to the Tourism and Agriculture sectors as well as profit re-investments by non-resident investors. (See **Figure 4**).

Figure 3: Stock of Inward Direct Investment (US\$ Millions)

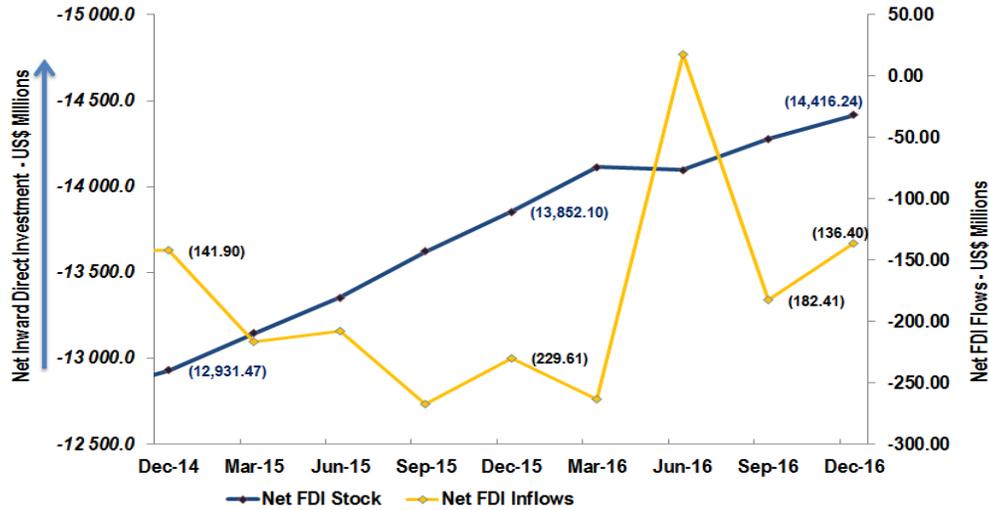
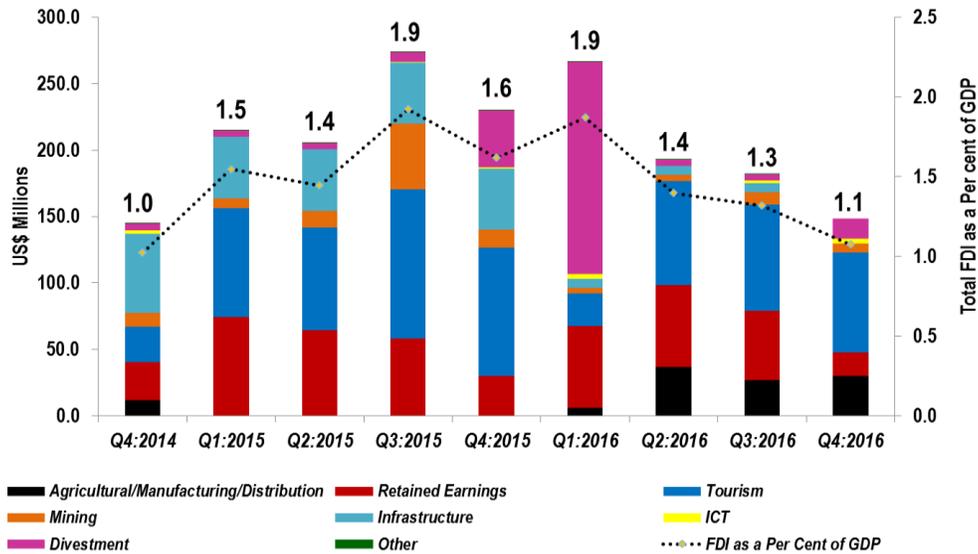


Figure 4: Inward Direct Investment by Sector (US\$ Millions)

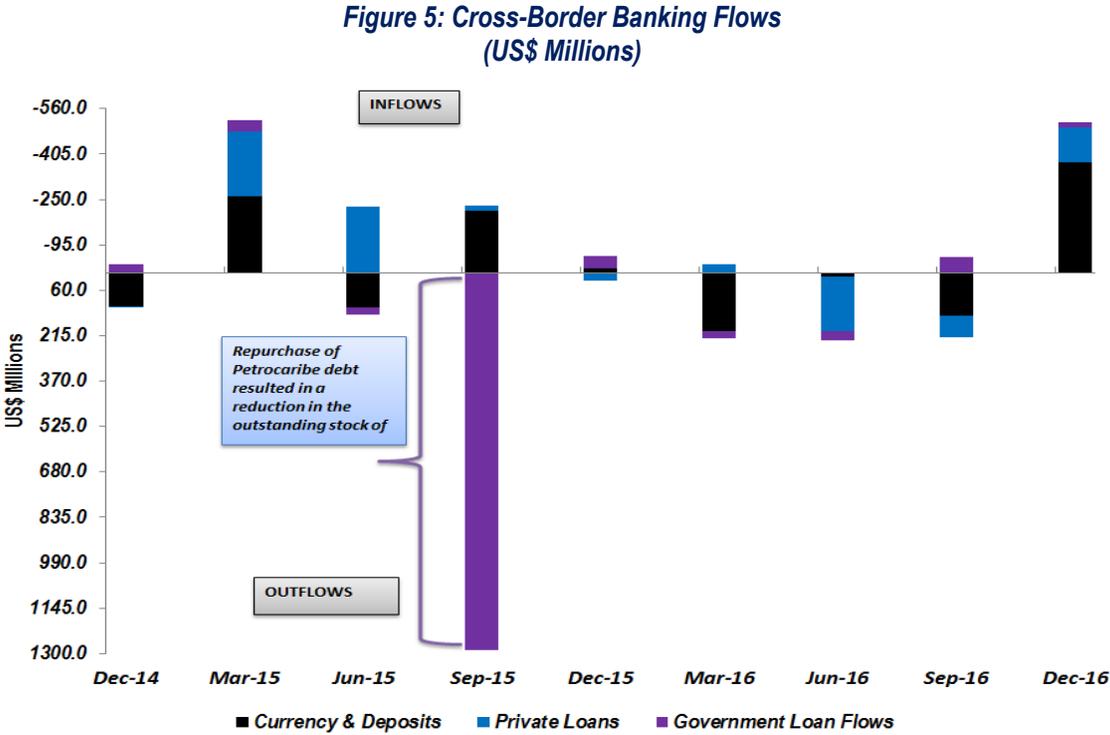


Relative to December 2015, the stock of *Net Inward Direct Investment* rose by **US\$564.1 million (4.0 per cent of GDP)**. Similar to the quarterly profile, inward direct investment flows for the year largely reflected significant investments in the Tourism and Agriculture sector as well as reinvestment of earnings by direct investment enterprises. A notable direct investment transaction during the year was the acquisition of **79.99 per cent** shares in Dolphin Cove by World of Dolphins Inc., Mexico.



Other Investments

The stock of *Net Other Investment* liabilities at end-December 2016 was **US\$6 315.4 million** (see **Table 1**). This reflected a deterioration of **US\$533.6 million** relative to end-September 2016. The increase in *Other Investments liabilities* was attributable to a drawdown of **US\$400.6 million** in deposits held abroad by residents – primarily reflecting transactions in the Banking sector (see **Figure 5**) and an increase in loan receipts of **US\$102.9 million**.



Annually, the change, the stock of *Net Other Investment* liabilities increased by **US\$180.9 million**. This largely reflected a small build-up of **US\$42.2 million** in deposits held abroad by residents which was supported by a decline of **US\$44.2 million** in the stock of loan liabilities for both the private and public sector.

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>

BANK OF JAMAICA

Nethersole Place

P.O. Box 621

Kingston, Jamaica

Telephone: 876 922 0750

Website: www.boj.org.jm