The International Investment Position of Suriname

Rosminie Warsosemito

Central Bank of Suriname

Outline of presentation

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- The IIP and the Balance of Payments
- Analysis of the IIP of Suriname
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Aim

- To detect underlying risk exposures within the current favorable macroeconomic environment of Suriname through the IIP for 2010 – 2011
- Vulnerabilities in the financial systems were at the centre of financial crises in 1990's and 2007/2008
- Maturity and currency mismatches in the composition and size of assets and liabilities
- Balance sheet approach to analyse these vulnerabilities

Surinamese economy

- Continued real positive growth
- Surpluses on the external current account
- Prudent fiscal stance
- External debt ratios below legally permitted levels

Underscored by :

- IMF Article-IV report of 2012
- Recent rating upgrade by Fitch

Emergence of the IIP

- Rapid communication and technology development enhanced the process of financial globalization
- Massive increase in international capital flows during 1990's
- Significant stocks of foreign assets and liabilities of individual countries

Emergence IIP (cont'd)

- Capital account liberalization :
  - finances higher levels of investments than possible with domestic savings
  - contributes to sustained periods of growth
  - increases incidences of financial collapse through 1990's, e.g. Mexico in 1994, South-East Asia in 1997, recently USA and Europe

Range of explanations

- Macroeconomic fundamentals, e.g. government deficit, external current account deficit
- Liquidity mismatch, besides macroeconomic fundamentals, aspects of balance sheet analysis
- Balance sheet approach is inevitable for nowadays analysis

Risks involved

Four types of risks: (Allen et al, 2002)

- Maturity mismatch : assets are long term and liabilities are short term. Maturing debt will not be refinanced, debtor has to repay the loan in cash
- Currency mismatch : short-term foreign current debt exceeds liquid reserves
- Capital structure mismatch : relying excessively on debt financing rather than equity
- Solvency risks : entity's assets no longer cover its liabilities

IIP and the BOP

- Balance sheet of a country reflects stock of external financial assets and financial liabilities at a given point in time
- Net Investment position : Assets - Liabilities
- Direct link between the current account balance and the IIP arises from the financial account and the international reserves
- In cases of surplus on the current account , excess foreign reserves are added to the official reserves (part of external assets) or to the foreign assets of the banking system.
- Residents acquire foreign assets in the form of direct investments, portfolio , other investments and are recorded as gross outflows on the financial account
- Non-residents acquire assets in the country, add to the country's liabilities and are recorded as gross inflow into the country
- These are refers to financial flows

Other changes affecting the IIP

Revaluation changes :

- Exchange rate valuation
- Asset price valuation. Movement in asset prices as a consequence of stock market prices
- **Net IIP = NIIP $_{t-1}$ + CA $_{t}$ + (K $_{At}$ * A $_{t-1}$) – (K $_{Lt}$ * L $_{t-1}$)**

CA = Current account balance of the BOP.

A = Gross external assets

L = Gross external liabilities

K_A = Value change of external assets

K_L = Value change of external liabilities

Analysis of the Surinamese IIP

Sources :

- Commercial banks, Central Bank, State Debt Management Office (SDMO) , and surveys
- Private debt is based on direct reporting

Current stance :

- Net International Investment position was in 2010 US$ 526 and US$ 559 in 2011.
- External assets amounted to 42 % of GDP, while external liabilities amounted to 30% of GDP.
- External liabilities (27%) grew at a much faster rate than assets (19%). Need for monitoring !

Table 1. International Investment Position		
(in million US$)	**2010**	**2011**
Total external assets	**1,681**	**2,118**
Total external liabilities	**1,156**	**1,559**
Net investment position	**526**	**559**

Disaggregation

- Monetary authorities and banks realized a comfortable net external position
- Other sector, proved to have a net liability external position

Table 2. Net International Investment Position by Sectors		
1. Institutional sectors (in million US$)	**2010**	**2011**
Net investment position	**526**	**559**
Monetary Authorities	329	351
Banks	479	553
Other Sectors	-282	-345

Other sectors

- 80 % of total liabilities consists of direct investments in the mining sector
- Direct investments considered to have a long-lasting relationship, not prone to sudden reversals
- Payments are contingent , with profits and dividends plunging in bad times
- Subtracting FDI investment led to a net investment position of US$ 215 million

Other sectors

- 80 % attributable direct investments
- Loans attributable to capital investments
- Net liability position considered stable

Table 3. External Assets and Liabilities of Other Sectors		
	2010	**2011**
External Assets (in million US$)	**348**	**567**
- Currency and deposits	348	567
External Liabilities (in million US$)	**630**	**912**
- Short-term Credit	16	22
- Long-term Loans	118	317
- Direct investment in reporting economy	497	573
- Equity capital and reinvested earnings	560	674
- Other capital	-63	-100
- Claims on direct investors (-)	-271	-346
- Liabilities to direct investors	208	246
Net investment position	**-282**	**-345**

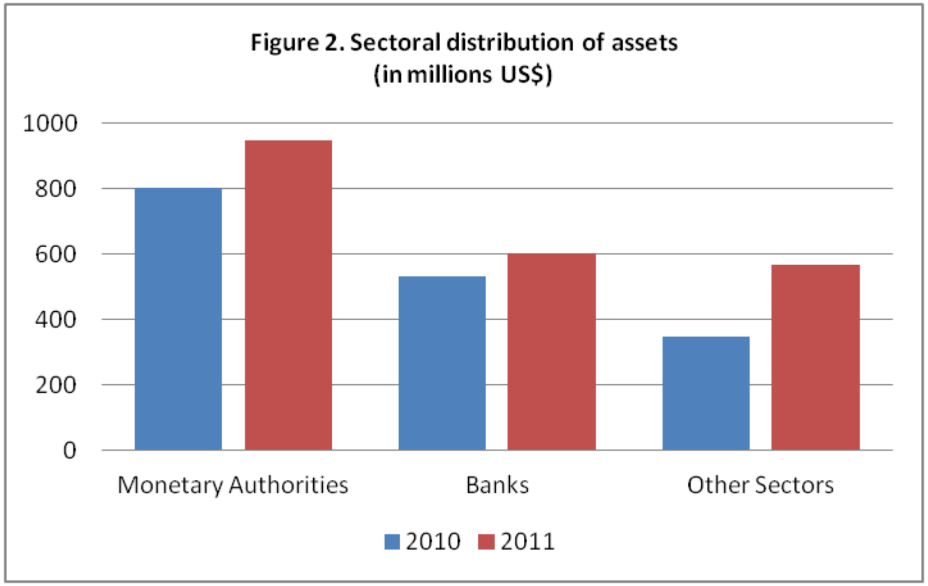
External liabilities by sector

- Other sectors hold 60% of total liabilities
- Government hold 30% of total liabilities
- - long term loans, average interest of less than 1 %.
- - infrastructural and institutional capacity building
- - Government external debt is 15 % in 2010, 20 % in 2011

Table 4. External liabilities by sector	2010	2011
External liabilities (in million US$)	1,153	1,555
- General Government/long-term	334	458
- Monetary Authorities/ SDR related liabilities	139	138
- Banks / Short-term	50	47
- Other Sectors	630	912

Sectoral distribution of assets

- Monetary authorities, incl. government hold 50% of total assets
- Banks hold 30 %, Other sectors 20 %



Composition of assets

- Very liquid, currency and deposits, & portfolio investments

Table 5. Composition of External Assets	2010	2011
External Assets (in million US$)	1,681	2,118
- Monetary Authorities	801	947
International reserves	691	817
Other foreign assets	110	130
- Banks	532	604
Currency and deposits	491	569
Securities	41	35
- Other Sectors	348	567
Currency and deposits	348	567

Functional categories of liabilities

- As mentioned before, loans are all long-term and attributable to government and private sector

Table 6. Functional Categories of External Liabilities	2010	2011
Total external liabilities (in millions US$)	**1,156**	**1,559**
- Direct investment	497	573
Equity capital and reinvested earnings	560	674
Other capital	-63	-100
- Portfolio investment	3	4
Debt securities	3	4
- Other investment	656	981
Trade credits	16	22
Loans	451	775
Currency and deposits	50	47
Other	139	138

Overall…

- The institutional sectors, whether on aggregated or disaggregated level , are currently not exposed to maturity mismatch or currency risk
- This partly reflects government policy towards capital transactions: all financial transactions, direct investments, portfolio investments and loans , are subject to approval.
- Probably prevented contagion from the financial crises

Conclusion

- The IIP is a tool to investigate the composition and size of external liabilities and assets.
- Financial crises stresses the importance of monitoring risks emanating from the external balance sheet.
- Suriname's external balance sheet indicates that the current external balance sheet is robust and poses no threat to the real sector.
- It therefore substantiates the positive macroeconomic performance.

Thank You!