

## Balance of payments in the fourth quarter of 2014 and the international investment position

The Central Bank of Iceland has published on its website the preliminary statistics for the balance of payments in the fourth quarter of 2014, and for the international investment position at the end of the quarter.<sup>1</sup>

The current account balance was positive by 26.7 b.kr. during the quarter, as opposed to a positive balance of 43.2 b.kr. in the preceding quarter. The balance on goods trade was positive by 15.4 b.kr., and the balance on services trade was positive by 11.8 b.kr. The balance on primary income was positive by 3.2 b.kr., whereas secondary income was negative in the amount of 3.8 b.kr. The current account balance excluding the effects of deposit institutions in winding-up proceedings was positive by 35.6 b.kr., as opposed to a surplus of 52.7 b.kr. in the preceding quarter.

The last time the income account showed a surplus was in Q3/2007. In spite of the surplus, the deposit institutions in winding-up proceedings still have a major impact. Calculated expenditures due to these institutions totaled 14.5 b.kr., while revenues were 5.6 b.kr. The negative effect of deposit institutions in winding-up proceedings on the balance on income totaled 8.9 b.kr. The balance on income excluding these institutions was therefore positive by 12.1 b.kr.

Foreign assets totaled 5,279 b.kr. at the end of the quarter, while foreign liabilities totaled 13,113 b.kr. Thus the net position was negative by 7,835 b.kr., and net liabilities increased by 215 b.kr. quarter-on-quarter. Excluding the financial institutions undergoing winding-up proceedings, assets totaled 3,712 b.kr. and liabilities 3,833 b.kr., yielding a net balance of -121 b.kr. Net liabilities increased by 17 b.kr. between quarters. Table 2 illustrates developments in the main assets and liabilities items during the quarter, showing changes in the financial balance, changes in exchange rates and prices, and other changes. Financial transactions were sizeable during the quarter, and external assets were reduced by 403 b.kr. as a result, however, liabilities declined by 475 b.kr. Net financial transactions therefore improved the international investment position by approximately 72 b.kr. These large financial transactions are due in large part to payments made by the Landsbanki Íslands winding-up board to priority creditors (totaling just

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<sup>1</sup> See the Statistics pages at <http://www.sedlabanki.is>.

over 400 b.kr.). In addition, the Central Bank prepaid nearly 50 b.kr. towards its debt to the International Monetary Fund (IMF). Exchange rate movements had a sizeable impact on the international investment position, as the króna depreciated by nearly 5% against the US dollar and about 1% against the pound sterling and the euro. In trade-weighted terms, however, it appreciated by 0.5%. The price of foreign equities and bonds rose by an average of less than 1%. The combined exchange rate and price changes led to a weaker position in the amount of 187 b.kr. during the quarter, foreign assets increased by 95 b.kr. and foreign liabilities by 283 b.kr. as a result of these effects. Other changes in assets and liabilities eroded the results by 100 b.kr.

### **Revision of previously published figures**

The current account balance for previous quarters has been revised extending back to the beginning of 2011. The largest revision is for Q3/2014,<sup>2</sup> and the current account surplus for that quarter is now about 5 b.kr. smaller than in December 2014. Revisions for other quarters are much smaller. The international investment position of the economy has also been revised for the same period. The revisions make the strongest impact on 2013 and 2014 figures and are much less pronounced for the years preceding.

### **Metadata**

New and revised metadata have been published for the balance of payments, the international investment position, and foreign liabilities. The metadata are more detailed than before and contain definitions of key terminology and explanations of statistical methodologies.

### **Underlying international investment position**

An analysis of the underlying international investment position of the Icelandic economy has also been published on the Central Bank of Iceland website today.

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<sup>2</sup> In general, the most recent figures change the most because they are based in part on estimates, as final statistics are not yet available.

**Table 1. Quarterly balance of payments (b.kr.)**

	<u>2013, IV</u>	<u>2014, I</u>	<u>2014, II</u>	<u>2014, III</u>	<u>2014, IV</u>
<b>Current account balance</b>	<b>22.0</b>	<b>-3.1</b>	<b>6.0</b>	<b>43.2</b>	<b>26.7</b>
Balance on goods	9.2	-1.1	-14.0	-11.3	15.4
Balance on services	18.9	15.6	32.7	78.7	11.8
Balance on primary income	-2.4	-13.5	-9.0	-20.3	3.2
Secondary income, net	-3.6	-4.1	-3.6	-4.0	-3.8
<b>Capital account</b>	<b>-0.3</b>	<b>-0.6</b>	<b>-0.2</b>	<b>-0.4</b>	<b>-0.4</b>
<b>Financial account</b>	<b>-1.7</b>	<b>18.7</b>	<b>42.1</b>	<b>-10.4</b>	<b>72.0</b>
Direct investment	-1.0	-2.4	-24.5	-77.7	23.0
Portfolio investment	28.3	30.8	5.6	-116.2	-66.4
Financial derivatives	-0.2	-0.5	-0.2	0.5	-0.5
Other investments	-60.3	0.9	49.4	126.3	138.9
Reserve assets	31.4	-10.0	11.8	56.7	-23.0
<b>Net errors and omissions</b>	<b>-23.4</b>	<b>22.4</b>	<b>36.3</b>	<b>-53.2</b>	<b>45.7</b>
<i>Memorandum items:</i>					
<b>CA excluding DMBs undergoing winding-up proceedings</b>	<b>30.8</b>	<b>5.3</b>	<b>16.0</b>	<b>52.7</b>	<b>35.6</b>

**Table 2. Quarter-on-quarter changes in the international investment position (b.kr.)**

	Position at end- Q3/2014	Financial account	Exchange rate and price changes	Other changes	Position at end- Q4/2014
<b>Foreign assets, total</b>	<b>5,664</b>	<b>-403</b>	<b>95</b>	<b>-78</b>	<b>5,279</b>
Direct investment	2,185	24	39	-81	2,167
Portfolio investment	1,335	-58	42	2	1,322
Financial derivatives	4	-1	-1	10	12
Other investments	1,595	-345	7	-10	1,248
Reserve assets	544	-23	8	1	530
<b>Foreign liabilities, total</b>	<b>13,284</b>	<b>-475</b>	<b>283</b>	<b>22</b>	<b>13,113</b>
Direct investment	2,053	1	41	11	2,106
Portfolio investment	5,889	8	132	14	6,043
Financial derivatives	9	0	0	9	18
Other investments	5,333	-484	110	-12	4,946
<b>International investment position</b>	<b>-7,620</b>	<b>72</b>	<b>-187</b>	<b>-100</b>	<b>-7,835</b>
<i>Memorandum items:</i>					
<b>IIP excluding DMBs undergoing winding-up proceedings</b>	<b>-104</b>	<b>5</b>	<b>2</b>	<b>-25</b>	<b>-121</b>

Further information can be obtained from Ríkarður Bergstað Ríkarðsson and Pétur Örn Sigurðsson at the Central Bank of Iceland Statistics Department, tel. +354 569-9600.