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Current account deficit 39.1 b.kr. in Q2/2022 – net IIP positive by 24.7% of GDP

Iceland's current account showed a deficit of 39.1 b.kr. in Q2/2022. This represents an improvement of 5.9 b.kr. relative to the previous quarter but a deterioration of 6.4 b.kr. relative to Q2/2021. The deficit on goods trade totalled 40.2 b.kr., while the surplus on services trade totalled 33.3 b.kr.¹ The deficit on primary income was 22.3 b.kr., and the deficit on secondary income was 9.8 b.kr. (Table 1).

This is included in new information published on the Central Bank of Iceland website, showing the preliminary balance of payments in Q2/2022 and the external position of the economy at the end of the quarter.²

Table 1. Balance of payments (b.kr.)

	<u>2021/2</u>	<u>2021/3</u>	<u>2021/4</u>	<u>2022/1</u>	<u>2022/2</u>
Current account balance	-32.8	30.1	-34.2	-45.0	-39.1
Balance on goods	-55.7	-45.7	-38.3	-31.1	-40.2
Balance on services	23.5	63.7	22.2	-0.5	33.3
Balance on primary income	7.5	19.9	-7.5	-4.1	-22.3
Secondary income, net	-8.0	-7.9	-10.6	-9.4	-9.8
Capital account	-0.7	-0.4	-0.9	-0.8	-0.6
Financial account	3.6	87.4	-51.6	-31.9	-50.9
Direct investment	21.1	-10.5	-47.1	21.0	-36.2
Portfolio investment	27.5	70.8	36.8	-61.5	-24.3
Derivatives	2.6	4.4	4.7	4.6	3.9
Other investments	-61.0	-31.9	-44.1	-1.7	-4.4
International reserves	13.4	54.7	-1.9	5.6	10.1
Net errors and omissions	37.0	57.6	-16.6	13.9	-11.2

The erosion in the current account balance relative to the same quarter in 2021 stems from a deterioration in primary income in the amount of 29.9 b.kr. This is due mainly to improved performance among foreign-owned companies classified

¹See the [Statistics Iceland website](https://www.cb.is/statistics/).

²Tables on Iceland's balance of payments and international investment position can be found on the Statistics pages of the Central Bank website: <https://www.cb.is/statistics/>.

as direct investment.³ On the other hand, the surplus on goods trade was more favourable by 15.5 b.kr. and the balance on services was more favourable by 9.8 b.kr. The deficit on secondary income was smaller by 1.8 b.kr.

The net international investment position was positive by 863 b.kr., or 24.7% of GDP, and deteriorated by 200 b.kr., or 5.7% of GDP, during the quarter. Foreign assets totalled 4,600 b.kr. at the end of the quarter, while foreign liabilities totalled 3,737 b.kr. During the quarter, the position declined by 51 b.kr. as a result of financial transactions, foreign assets increased by 43 b.kr. and foreign liabilities by 94 b.kr. Asset values declined by 243 b.kr. during the quarter, owing to price and exchange rate movements, and liabilities fell in value by 71 b.kr. Price and exchange rate movements therefore eroded the position by 172 b.kr. Prices in foreign securities markets fell by nearly 16.4% between quarters, and prices in the domestic stock market fell by 15.4%. The króna appreciated by 2.1% in terms of the trade-weighted index.

Table 2. Quarter-on-quarter change in international investment position (b.kr.)

	Position at end-Q1/2022	Financial account	Exchange rate and price changes	Other changes	Position at end-Q2/2022
Foreign assets, total	4,837	43	-243	-37	4,600
Direct investment	820	38	-11	-17	830
Portfolio investment	2,529	3	-217	-5	2,309
Derivatives*	7	4	-5	0	6
Other investments	601	-12	0	-15	574
International reserves	880	10	-9	0	881
Foreign liabilities, total	3,774	94	-71	-59	3,737
Direct investment	1,147	74	16	0	1,237
Portfolio investment	1,564	27	-91	-4	1,496
Derivatives*	34	0	-4	0	30
Other investments	1,030	-8	8	-55	975
Net international investment position (NIIP)	1,064	-51	-172	22	863
% of GDP	30.4%	-1.5%	-4.9%	0.6%	24.7%

*Other changes are included under price and exchange rate changes for derivatives.

³ A positive performance by foreign-owned firms in Iceland is recognised as expenses in the current account balance.