

Balance of payments in the fourth quarter of 2015 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 2015, and for the international investment position at the end of the quarter.¹

It should be noted that the estates of the deposit institutions in winding-up proceedings finalised their composition agreements during the quarter. This had a major impact on Iceland's international investment position. The effects on the current account balance will not surface in full, however, until Q1/2016, as the composition agreements were not confirmed until the end of the quarter. Further discussion of the effects of settling the failed deposit institutions' estates can be found below.

The current account balance was positive by 8 b.kr. during the quarter, as opposed to a positive balance of 50.2 b.kr. in the preceding quarter. The balance on goods trade was negative by 14.2 b.kr., while the balance on services trade² was positive by 21.2 b.kr. The balance on primary income was positive by 7.6 b.kr., whereas secondary income was negative in the amount of 6.7 b.kr. The effects of the deposit institutions in winding-up proceedings on primary income were positive in the amount of 1.5 b.kr., with their calculated expenditures totalled 8.8 b.kr. and revenues 10.3 b.kr. The balance on primary income excluding these institutions was therefore positive by 6.1 b.kr. and the current account balance was positive by 5.3 b.kr.

Settlement of the failed deposit institutions' estates

In autumn 2008, the estates of Iceland's largest banks were placed in winding-up proceedings, and resolution committees were entrusted with their administration. These companies' liabilities have made a strong impact on Iceland's debt position ever since. In December 2015, binding composition agreements were reached with the estates' creditors. The agreements provide for cash payments to creditors, in addition to debt and equity securities in the companies, which will be delivered to creditors.

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

² <http://www.statice.is/publications/news-archive/external-trade/external-trade-in-services-4th-quarter-2015-preliminary-figures/>

Payments to creditors total 1,904 b.kr. and debt write-off 7,134 b.kr. Only a portion of the payments, 462 b.kr., were carried out in Q4. The remaining 1,442 b.kr.³ will be paid to creditors later, either in cash or in bonds and shares in the companies.

Beginning with this press release, separate publication of the IIP with and without the failed deposit institutions will be discontinued. Figures on the failed deposit institutions for the period from Q4/2008 through Q3/ 2015 will still be available as part of the historical time series on the Central Bank website. The publication of a separate analysis of the underlying IIP is hereby discontinued. Concurrent with the approval of the composition agreements in December, the companies were converted to holding companies. Henceforth, they will be included with “other financial institutions” in statistics.

International investment position

Foreign assets totalled 4,785 b.kr. at the end of the quarter, while foreign liabilities totalled 5,101 b.kr. The net position is therefore negative by 316 b.kr., or roughly 14.4% of GDP. Net liabilities declined between quarters by 7,196 b.kr., or 328.6% of GDP. 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. Net financial transactions improved the international investment position by approximately 33 b.kr., as foreign assets increased by 448 b.kr. and foreign liabilities by 486 b.kr. as a result of the transactions. Price and exchange rate changes had a positive impact on the IIP in the amount of 7,163 b.kr. during the quarter, including 7,134 b.kr. due to write-off of the failed deposit institutions’ debt. Other price and exchange rate changes amounted to 29 b.kr., due mainly to an increase in foreign shareholdings, as the price of foreign shares rose by an average of 5% during the quarter. The króna depreciated against major currencies apart from the US dollar during the quarter, or by 0.6% in terms of the trade-weighted index. The króna depreciated by 1% against the euro and 0.8% against the pound sterling, but appreciated by 1.8% against the US dollar.

³ At the end of the quarter, this amount is classified under “other accounts receivable/payable”, and the portion that will be delivered to creditors in the form of bonds and shares will be entered later to the appropriate items.

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

	<u>2014, IV</u>	<u>2015, I</u>	<u>2015, II</u>	<u>2015, III</u>	<u>2015, IV</u>
Current account	27,6	7,9	27,6	50,2	8,0
Balance on goods	15,4	3,5	-12,6	-12,2	-14,2
Balance on services	11,0	20,7	58,7	90,1	21,2
Balance on primary income	5,5	-11,9	-13,7	-2,4	7,6
Secondary income, net	-4,3	-4,4	-4,7	-25,2	-6,7
Capital account	-0,4	-0,4	-0,3	-0,4	-0,4
Financial account	55,6	5,0	78,9	53,0	32,7
Direct investment	14,1	-126,9	59,4	-1,0	7,2
Portfolio investment	-65,4	-46,7	15,3	-68,0	607,7
Financial derivatives	-0,5	-2,7	0,0	5,0	-0,1
Other investment	130,5	123,2	-31,4	111,9	-649,9
Reserve assets	-23,0	58,1	35,7	5,2	67,8
Net errors and omissions	28,5	-2,5	51,6	3,2	25,2

*Memorandum items:***CA without DMBs
undergoing****winding-up proceedings** **34,9** **15,4** **32,7** **54,7** **5,3****Table 2. Quarter-on-quarter changes in the international investment position (b.kr.)**

	Position at end-Q3/2015	Financial account	Exchange rate and price changes	Other changes	Position at end-Q4/2015
Total assets	5.207	-444	43	-21	4.785
Direct investment	1.974	32	9	-18	1.997
Portfolio investment	1.170	-289	44	-6	920
Financial derivatives*	12	0	-1	0	10
Other investment	1.464	-255	-4	-1	1.204
Reserves assets	587	68	-5	3	653
Total liabilities	12.719	-477	-7.125	-17	5.101
Direct investment	2.005	25	6	-15	2.020
Portfolio investment	5.921	-896	-4.053	2	975
Financial derivatives*	14	0	0	0	14
Other investment	4.779	395	-3.078	-4	2.092
International investment position	-7.512	33	7.168	-5	-316
International investment position, % of GDP	-343,0%	1,5%	327,3%	-0,2%	-14,4%

*Other changes in financial derivatives are counted under exchange rate and price changes.

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