

Balance of payments in the first quarter of 2008 and the external position

Today the Central Bank of Iceland will publish on its website the preliminary statistics for the balance of payments in the first quarter of 2008, and for the external position at the end of the quarter.¹

The deficit on the current account was 56.7 b.kr. in the first quarter of the year, which is considerably lower than in the fourth quarter of 2007. To a large degree, the change can be traced to the considerably lower deficit on the income and service accounts, which is offset somewhat by the wider merchandise account deficit. Returns on Icelandic residents' portfolio investments abroad are largely responsible for the quarter-on-quarter improvement in the balance on income. There was also a slight increase on the expenditure side, which is explained largely by reinvested earnings of non-residents in Iceland. The decline in the exchange rate of the króna during the quarter had a significant effect on most items related to balance of payments statistics.

Net financial inflow totalled 135.3 b.kr. during the quarter. Outward foreign direct investment increased by 36 b.kr., after declining by 275 b.kr. in the fourth quarter of 2007. Inward foreign direct investment dropped, as did non-residents' portfolio investments in Icelandic bonds.

The errors and omissions item in the quarterly accounts is relatively large but is expected to diminish as further information becomes available. The Central Bank's experience is that a negative errors and omissions item is most often explained by underestimation of the financial account, although sometimes it is also the case that more detailed information concerning changes in transactions and their timing becomes available later.

Iceland's international investment position was negative by 2,211 b.kr. at the end of the first quarter, having deteriorated by 628 b.kr. over the quarter.² This is largely due to the depreciation of the króna; that is,

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

² In a paper that appeared in *Monetary Bulletin* 2008/1, author Daníel Svavarsson attempts to estimate the market value of foreign direct investment and its impact on the calculated net international investment position as of the end of Q3/2007. This

the 29.6% increase in the price of foreign currency according to the exchange rate index, which is reflected in corresponding increases in external assets and debt. However, certain currencies appreciated considerably more than others; for example, the euro appreciated by nearly 33% against the króna. External assets totalled 7,758 b.kr. at the end of the quarter, while external debt totalled 9,970 b.kr.

The table shows quarterly balance of payments for Iceland in b.kr. at exchange rates of each period

| | <i>2007-1</i> | <i>2007-2</i> | <i>2007-3</i> | <i>2007-4</i> | <i>2008-1</i> |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Current Account | -31.5 | -48.5 | -29.1 | -90.6 | -56.7 |
| Exports of goods and services | 109.2 | 106.1 | 105.9 | 128.3 | 112.2 |
| Imports of goods and services | -130.9 | -146.8 | -143.0 | -159.4 | -147.6 |
| Income and current transfer. net | -9.7 | -7.8 | 8.1 | -59.6 | -21.3 |
| Capital and Financial Account | -109.0 | 116.9 | 62.2 | 100.5 | 135.3 |
| Financial account excl. Reserves | -108.8 | 115.0 | 68.9 | 103.9 | 142.3 |
| External assets. net | -643.1 | -643.6 | -483.2 | -571.2 | 112.3 |
| External debt. net | 534.3 | 758.6 | 552.1 | 675.1 | 30.0 |
| Reserve assets (- increase) | 0.1 | 2.5 | -6.2 | -3.1 | -6.5 |
| Net errors and omissions | 140.5 | -68.3 | -33.2 | -9.8 | -78.5 |

Further information can be obtained from Tómas Örn Kristinsson, Director of the Statistics and IT Department of the Central Bank. at tel: +354 569-9600.

analysis has not yet been repeated, but it is clear that the findings would be quite different now because prices on foreign markets have declined by 15-20% since the reference period used by Daníel Svavarsson in his study, and the market value of non-residents' direct investment in Iceland has most likely increased rather than decreased.