

Balance of payments in the second quarter of 2015 and the international investment position¹

The Central Bank of Iceland has published on its website the preliminary statistics for the balance of payments in the second quarter of 2015, and for the international investment position (IIP) at the end of the quarter.²

The current account balance was positive by 21.3 b.kr. during the quarter, as opposed to a positive balance of 6.3 b.kr. in the preceding quarter. The balance on goods trade was negative by 12.8 b.kr., while the balance on services trade was positive by 54.7 b.kr. The balance on primary income was negative by 16 b.kr. and secondary income by 4.7 b.kr.

It should be noted that changes have been made to the calculation of the current account excluding the effects of deposit institutions in winding-up proceedings. The current account balance measured in that way was positive by 26.5 b.kr., as opposed to a surplus of 13.5 b.kr. in the preceding quarter. As before, adjustments have been made for their revenues and expenses in the primary income balance, in the amount of 4.8 b.kr. and 11.3 b.kr., respectively, in the second quarter. The negative effect of deposit institutions in winding-up proceedings on the balance on income totalled 6.6 b.kr. In addition, account is now given to financial intermediation services indirectly measured (FISIM), which are usually excluded from the primary income balance and included with the services account balance. This gives a more accurate view of the current account balance excluding the deposit institutions in winding-up proceedings. All other things being equal, the result obtained with this method is the same as that obtained before the implementation of the new balance of payments standards in September 2014.

Foreign assets totalled 5,535 b.kr. at the end of the quarter, while foreign liabilities totalled 13,200 b.kr. Thus the net external position was

¹ On 2 September 2014, the Central Bank of Iceland adopted new standards for the compilation of statistics for the balance of payments and international investment position. Further information on the changes can be found in Central Bank *Informational Report* no. 5. See:

<http://www.cb.is/library/Fylgiskjöl/Hagtölur/Greiðslujöfnuður/Annað-tengt-efni/New%20standards%20for%20statistics%20on%20the%20balance%20of%20payments%20and%20international%20investment%20position.pdf>

² See the Statistics pages at <http://www.sedlabanki.is>

negative by 7,665 b.kr., and net liabilities declined by approximately 266 b.kr. quarter-on-quarter. Excluding the financial institutions undergoing winding-up proceedings, assets totalled 3,966 b.kr. and liabilities 3,852 b.kr. The net position was therefore positive by 114 b.kr., and net assets increased by 87 b.kr. during the quarter. Table 2 illustrates developments in the main assets and liabilities items during the quarter, showing transactions in the financial account, changes in exchange rates and prices, and other changes. Net financial transactions improved the international investment position by approximately 106 b.kr., as foreign assets increased by 6 b.kr. and foreign liabilities by 112 b.kr. as a result of the transactions. Exchange rate and price changes improved the position in the amount of 156 b.kr. during the quarter, foreign assets and liabilities decreased by 73 b.kr. and 229 b.kr., respectively, as a result of these effects. The króna appreciated by just over 4% against the US dollar but depreciated by 2% against the pound sterling. In trade-weighted terms, however, it appreciated by 0.73%. The price of foreign equity and debt securities fell by an average of 0.3%.

Extraordinary revisions

The balance of payments and international investment position have been revised retroactive to 1995. Previously published statistics are revised regularly, according to a predetermined schedule.³ Figures are revised retroactively for a maximum period of 17 quarters. Older figures are considered final. Apart from the regular revisions, longer periods of time are reviewed under extraordinary circumstances, as in the present case. In September 2014, statistics were published for the first time according to the newly implemented balance of payments standards, and the present change is part of the completion of the implementation. The effects of the changes on the overall IIP results are minor, or an average of 0.3% of GDP, for the period from 1995 to 2013. The average effects on the balance of payments are much smaller. The most important changes are in goods imports, which have changed back to 1997, and services trade, which has changed back to 2003. The change in goods and services trade is in line with the revised figures recently published by Statistics Iceland. The effects of the revision on services trade can also be seen in primary income, as FISIM affects net interest.⁴ The Central Bank has also obtained revised figures from individuals' personal tax returns from the Directorate of Internal Revenue. These figures have led to changes in wage income and secondary income dating back to 1995. The new data from the Directorate of Internal Revenue led to an increase in households' foreign deposits back to 1999.

³ See "Metadata for the Balance of Payments", page 18:
<http://www.cb.is/lisalib/getfile.aspx?itemid=f40fa25e-0eb4-11e5-93fd-005056bc2afe>

⁴ Interest on financial institutions' deposits and loans is measured as net interest; that is, net of FISIM.

Other changes include those pertaining to Icelandic pension funds' pension obligations to retirees residing abroad.

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.

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

	<u>2014, II</u>	<u>2014, III</u>	<u>2014, IV</u>	<u>2015, I</u>	<u>2015, II</u>
Current account balance	5.0	43.0	26.3	6.3	21.3
Balance on goods	-13.9	-9.6	15.4	3.9	-12.8
Balance on services	32.1	77.8	11.0	19.8	54.7
Balance on primary income	-9.7	-21.2	4.1	-13.1	-16.0
Secondary income, net	-3.6	-4.0	-4.1	-4.4	-4.7
Capital account	-0.2	-0.4	-0.4	-0.4	-0.3
Capital and Financial Account	43.4	-6.3	67.4	1.6	106.4
Direct investment	-24.6	-77.6	23.8	-129.0	79.7
Portfolio investment	8.8	-115.3	-65.4	-46.7	14.3
Derivatives	-0.2	0.5	-0.5	-2.7	0.0
Other investments	47.5	129.4	132.5	121.9	-23.3
Foreign exchange reserves	11.8	56.7	-23.0	58.1	35.7
Net errors and omissions	38.6	-48.9	41.5	-4.3	85.4
<i>Memorandum items:</i>					
CA excluding DMBs undergoing winding-up proceedings	12.1	50.4	33.3	13.5	26.5

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

	Position at end-Q1/2015	Financial account	Exchange rate and price changes	Other changes	Position at end-Q2/2015
Foreign assets, total	5,625	-6	-73	-11	5,535
Direct investment	2,189	3	-19	-4	2,170
Portfolio investment	1,396	5	-27	0	1,374
Derivatives	12	0	2	-2	12
Other investments	1,435	-49	-7	-5	1,374
Foreign exchange reserves	593	36	-23	0	605
Foreign liabilities, total	13,555	-112	-229	-15	13,200
Direct investment	2,212	-76	-31	-4	2,100
Portfolio investment	6,252	-10	-115	3	6,130

Derivatives	22	0	0	-2	20
Other investments	5,070	-26	-83	-11	4,950
International investment position	-7,931	106	156	4	-7,665
<i>Memorandum items:</i>					
IIP excluding DMBs undergoing winding-up proceedings	27	120	-25	-8	114

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