



No. 6/2023
2 March 2023

Current account deficit 20.2 b.kr. in Q4/2022 – net IIP positive by 24.2% of GDP

The current account deficit measured 20.2 b.kr. in Q4/2022. This represents a deterioration of 46.6 b.kr. relative to the previous quarter but an improvement of 33.9 b.kr. relative to Q4/2021. There was a deficit on goods trade in the amount of 85.8 b.kr and a 24.2 b.kr. surplus on services trade.¹ The surplus on primary income amounted to 49.4 b.kr., whereas there was a 7.8 b.kr. deficit on secondary income (Table 1).

This is included in new information published on the Central Bank of Iceland website, showing the preliminary balance of payments in Q4/2022 and the external position of the economy at the end of the quarter.²

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

	<u>2021/4</u>	<u>2022/1</u>	<u>2022/2</u>	<u>2022/3</u>	<u>2022/4</u>
Current account balance	-54.1	-31.7	-32.6	26.4	-20.2
Balance on goods	-38.4	-19.2	-39.1	-69.9	-85.8
Balance on services	6.3	5.9	41.5	115.0	24.2
Balance on primary income	-11.4	-9.0	-25.2	-8.7	49.4
Secondary income, net	-10.6	-9.4	-9.8	-9.9	-7.8
Capital account	-0.9	-0.8	-0.6	-0.7	-0.2
Financial account	-55.0	-36.4	-98.5	34.1	13.7
Direct investment	-46.2	17.7	-58.8	-113.1	44.1
Portfolio investment	36.0	-62.2	-26.3	31.4	129.7
Derivatives	4.7	4.5	2.7	2.3	4.0
Other investments	-47.6	-2.0	-26.3	115.6	-83.6
International reserves	-1.9	5.6	10.1	-2.1	-80.6
Net errors and omissions	0.0	-3.8	-65.2	8.4	34.0

The improvement in the current account balance relative to the same quarter in 2021 stems from more favourable primary income transactions in the amount of 60.7 b.kr., owing mainly to a poorer performance among foreign-owned companies classified as direct investment.³ It is offset by a larger deficit on goods trade in the

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

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/>.

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

amount of 47.4 b.kr. The services account balance was more favourable by 17.9 b.kr., and secondary income was more favourable by 2.7 b.kr.

The current account balance for 2022 as a whole showed a deficit of 58 b.kr., as compared with a deficit of 78.4 b.kr. in 2021. The deficit on goods trade totalled 214 b.kr., while the surplus on services trade totalled 186.5 b.kr. The surplus on primary income amounted to 6.4 b.kr., whereas there was a 36.9 b.kr. deficit on secondary income.

At the end of Q4, the net international investment position was positive by 910 b.kr., or 24.2% of GDP. It improved by 91 b.kr., or 2.4% of GDP, during the quarter. External assets totalled 5,021 b.kr. at the end of the quarter, and external liabilities were 4,111 b.kr. During the quarter, the position improved by 14 b.kr. as a result of financial transactions, as foreign assets decreased by 56 b.kr. and foreign liabilities decreased by 70 b.kr. Price and exchange rate movements during the quarter increased asset values by 219 b.kr. and increased the value of liabilities by 119 b.kr., leaving an improvement of 100 b.kr. in the net external position. The króna depreciated by 5.5% in terms of the trade-weighted index. Prices in foreign securities markets rose by 8.9% between quarters, and prices in the domestic stock market rose by 1%.

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

	Position at end-Q3/2022	Financial account	Exchange rate and price changes	Other changes	Position at end-Q4/2022
Foreign assets, total	4,873	-56	219	-15	5,021
Direct investment	819	22	2	-5	838
Portfolio investment	2,453	82	156	-6	2,685
Derivatives*	10	4	2	0	17
Other investments	704	-83	28	-4	645
International reserves	886	-81	31	0	837
Foreign liabilities, total	4,054	-70	119	7	4,111
Direct investment	1,406	-22	20	8	1,411
Portfolio investment	1,544	-48	103	-2	1,597
Derivatives*	50	0	-19	0	31
Other investments	1,054	0	16	2	1,072
Net international investment position (NIIP)	819	14	100	-22	910
% of GDP	21.7%	0.4%	2.7%	-0.6%	24.2%

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