

## Balance of payments in the third quarter of 2014 and the international investment position<sup>1</sup>

The Central Bank of Iceland has published on its website the preliminary statistics for the balance of payments in the third quarter of 2014, and for the international investment position at the end of the quarter.<sup>2</sup>

The current account balance was positive by 48 b.kr. during the quarter, as opposed to a positive balance of 5.6 b.kr. in the preceding quarter. The balance on goods trade was negative by 9.9 b.kr., while the balance on services trade was positive by 80.2 b.kr. The balance on primary income was negative by 17.7 b.kr., and secondary income was negative in the amount of 4.5 b.kr. The current account balance excluding the effects of deposit institutions in winding-up proceedings was positive by 57.4 b.kr., as opposed to a surplus of 15.6 b.kr. in the preceding quarter.

As before, the income account deficit is due largely to the deposit institutions in winding-up proceedings. Calculated expenditures due to these institutions totalled 14.6 b.kr., while revenues were 5.2 b.kr. The negative effect of deposit institutions in winding-up proceedings on the balance on income totalled 9.4 b.kr. The balance on income excluding these institutions was therefore negative by 8.4 b.kr.

Foreign assets totalled 5,673 b.kr. at the end of the quarter, while foreign liabilities totalled 13,293 b.kr. Thus the net position was negative by 7,620 b.kr., and net liabilities increased by 154 b.kr. quarter-on-quarter. Excluding the financial institutions undergoing winding-up proceedings, assets totalled 3,713 b.kr. and liabilities 3,823 b.kr. Thus the net position was negative by 110 b.kr., and net liabilities declined by nearly 82 b.kr. quarter-on-quarter. Table 2 illustrates developments in the main assets and liabilities items during the quarter, showing changes in the financial account, changes in exchange rates and prices, and other changes. Changes in the exchange rate made a significant impact, as the exchange rate of the króna against foreign currencies changed markedly. For example, the króna

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<sup>1</sup> 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.sedlabanki.is/library/Skr%C3%A1arsafn/Uppl%C3%BDsingarit/Uppl%C3%BDsingarit%20nr%20%205.pdf>

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

depreciated by nearly 7.5% against the US dollar and just over 2% against the pound sterling but appreciated by almost 1% against the euro. On the other hand, foreign equity and debt securities declined slightly in price. The combined exchange rate and price changes led to a weaker position in the amount of 177 b.kr. During the quarter, foreign assets increased by 159 b.kr. and foreign liabilities increased by 336 b.kr. As a result of net transactions, however, assets increased by 40 b.kr. and liabilities increased by 33 b.kr., and the net position of the economy improved by 7 b.kr. Other changes in assets and liabilities improved the results by 17 b.kr.

### **Underlying international investment position**

An analysis of the underlying external position of the Icelandic economy has been published on the Central Bank of Iceland website today.

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

	<u>2013, III</u>	<u>2013, IV</u>	<u>2014, I</u>	<u>2014, II</u>	<u>2014, III</u>
<b>Current account balance</b>	<b>63.5</b>	<b>21.5</b>	<b>-4.4</b>	<b>5.6</b>	<b>48.0</b>
Balance on goods	3.3	9.4	-1.2	-13.8	-9.9
Balance on services	69.9	19.3	15.8	33.1	80.2
Balance on primary income	-5.5	-3.6	-14.6	-9.4	-17.7
Secondary income, net	-4.2	-3.6	-4.4	-4.2	-4.5
<b>Capital account</b>	<b>-0.4</b>	<b>-0.3</b>	<b>-0.6</b>	<b>-0.2</b>	<b>-0.3</b>
<b>Financial account</b>	<b>75.7</b>	<b>11.0</b>	<b>30.7</b>	<b>35.7</b>	<b>6.9</b>
Direct investment	0.5	10.0	7.3	-25.2	-75.9
Portfolio investment	36.1	28.3	30.8	5.6	-115.1
Financial derivatives	0.7	0.2	0.5	0.2	-0.5
Other investments	45.0	-58.9	2.1	43.4	141.7
Reserve assets	-6.6	31.4	-10.0	11.8	56.7
<b>Net errors and omissions</b>	<b>12.6</b>	<b>-10.2</b>	<b>35.7</b>	<b>30.3</b>	<b>-40.8</b>
<i>Memorandum items:</i>					
<b>CA excluding DMBs undergoing winding-up proceedings</b>	<b>72.1</b>	<b>30.4</b>	<b>4.2</b>	<b>15.6</b>	<b>57.4</b>

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

	Position at end-Q2/2014	Financial account	Exchange rate and price changes	Other changes	Position at end-Q3/2014
<b>Foreign assets, total</b>	<b>5,442</b>	<b>40</b>	<b>159</b>	<b>33</b>	<b>5,673</b>
Direct investment	2,137	-44	41	55	2,188
Portfolio investment	1,274	13	54	3	1,344
Financial derivatives	2	-1	2	1	4
Other investments	1,549	14	44	-14	1,593
Reserve assets	481	57	19	-11	544
<b>Foreign liabilities, total</b>	<b>12,908</b>	<b>33</b>	<b>336</b>	<b>16</b>	<b>13,293</b>
Direct investment	1,982	32	38	19	2,071
Portfolio investment	5,586	128	170	4	5,889
Financial derivatives	6	0	0	3	9
Other investments	5,334	-128	128	-10	5,325
<b>International investment position</b>	<b>-7,466</b>	<b>7</b>	<b>-177</b>	<b>17</b>	<b>-7,620</b>
<i>Memorandum items:</i>					
<b>IIP excluding DMBs undergoing winding-up proceedings</b>	-192	49	25	7	-110

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