

Balance of payments in the second quarter of 2016 and the external position

The Central Bank of Iceland has published on its website preliminary statistics for the balance of payments in the second quarter of 2016, and for the external position at the end of the quarter.¹

The current account balance was positive by 31.8 b.kr. during the quarter, compared to a positive balance of 12.3 b.kr. in the preceding quarter. This was the ninth consecutive quarter with a positive current account balance. The balance on goods was negative in the amount of 38.5 b.kr., while the balance on services² was positive by 62.2 b.kr. The balance on primary income was positive by 12.5 b.kr., whereas secondary income was negative in the amount of 4.5 b.kr.

Foreign assets totalled 4,070 b.kr. at the end of the quarter, while foreign liabilities totalled 4,094 b.kr. The net position is therefore negative by 24 b.kr., or roughly 1.1% of GDP. Net liabilities declined between quarters by 40 b.kr., or 1.8% of GDP. The foreign currency auction held by the Central Bank of Iceland on 16 June reduced króna-denominated liabilities by 83 b.kr. and reduced the foreign exchange reserves by 54 b.kr. The auction therefore led to an improvement in the external position in the amount of 29 b.kr.³ During the quarter, the companies established on the foundations of the failed commercial banks' estates paid a combined 82 b.kr. on bonds owned by foreign creditors. At the end of the quarter, their debt totalled 566 b.kr., which will be paid as asset sales are executed.⁴ The companies' debt at the end of Q1/2016 has been revised, as it proved much lower than was estimated at the time of the last press release. The result of this is an improvement in the net external position at the end of Q1/2016 by just over 70 b.kr., or 3.1% of GDP.⁵

Net financial transactions improved the international investment position by approximately 28 b.kr., as foreign assets declined by 181

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

² See [Statistics Iceland webpage](#).

³ See the [Central Bank's press release](#).

⁴ It should be noted that the value of assets as published in the statistics somewhat exceeds the value of liabilities. The valuation of assets differs from figures published in the accounts of the companies themselves because of difference in accounting methods. Liabilities are at market value.

⁵ In some instances, the companies' final quarterly financial information was not available at the time the balance of payments and external position were compiled. Therefore, estimates or preliminary data are used which could be subject to change.

b.kr. and foreign liabilities by 210 b.kr. as a result of the transactions. Exchange rate movements and price changes had a positive impact on the external position in the amount of 44 b.kr. during the quarter. The króna strengthened against most other major currencies during the quarter, or by 3.4% in terms of the trade-weighted index. The strengthening was greatest against the pound sterling, at 7.2%.

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

	<u>2015, Q2</u>	<u>2015, Q3</u>	<u>2015, Q4</u>	<u>2016, Q1</u>	<u>2016, Q2</u>
Current account balance	32.6	56.0	12.0	12.3	31.8
Balance on goods	-12.7	-11.8	-14.7	-26.4	-38.5
Balance on services	61.8	94.0	23.2	28.3	62.2
Balance on primary income	-13.0	-2.1	7.7	14.1	12.5
Secondary income, net	-3.6	-24.0	-4.2	-3.7	-4.5
Capital account	-0.3	-0.4	-0.4	-0.3	-0.4
Financial account	75.2	48.1	29.6	16.2	28.3
Direct investment	59.4	-1.3	-11.9	-25.1	-47.3
Portfolio investment	14.7	-70.4	609.7	69.7	136.4
Derivatives	0.0	5.0	-0.1	0.7	-1.1
Other investments	-26.2	106.3	-635.4	-127.3	-33.5
Foreign exchange reserves	27.3	8.5	67.2	98.3	-26.2
Net errors and omissions	42.9	-7.5	18.0	4.2	-3.1

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

	Position at end-Q1/2016	Financial account	Exchange rate and price changes	Other changes	Position at end-Q2/2016
Foreign assets, total	4,318	-181	-86	19	4,070
Direct investment	1,986	-135	-44	14	1,821
Portfolio investment	894	30	-13	6	916
Derivatives*	10	0	-1	0	8
Other investments	694	-50	-15	-3	626
Foreign exchange reserves	735	-26	-12	3	699
Foreign liabilities, total	4,382	-210	-130	52	4,094
Direct investment	2,214	-88	-49	66	2,143
Portfolio investment	1,504	-106	-78	-6	1,314
Derivatives*	12	0	1	0	12
Other investments	652	-16	-3	-8	625
International investment position	-64	28	44	-33	-24
International investment position, % of GDP	-2.8%	1.2%	1.9%	-1.4%	-1.1%

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

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