

Current account deficit 1.2 b.kr. in Q3/2020 – net IIP positive by 969 b.kr.

In Q3/2020, the current account showed a deficit of 1.2 b.kr., as compared with a deficit of 5.9 b.kr. in the previous quarter. The deficit on goods trade totalled 33.9 b.kr., while the surplus on services trade totalled 20.4 b.kr. There was a 13.5 b.kr. surplus on primary income and a 1.1 b.kr. deficit on secondary income (see table 1).

This is included in new information published on the Central Bank of Iceland website, showing the preliminary balance of payments in Q3/2020 and the external position of the economy at the end of the quarter.¹

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

	<u>2019/3</u>	<u>2019/4</u>	<u>2020/1</u>	<u>2020/2</u>	<u>2020/3</u>
Current account balance	69.8	52.1	11.6	-5.9	-1.2
Balance on goods	-47.9	-17.1	-23.3	-19.5	-33.9
Balance on services	108.3	61.5	22.7	3.1	20.4
Balance on primary income	15.3	9.9	19.5	17.1	13.5
Secondary income, net	-5.8	-2.2	-7.3	-6.7	-1.1
Capital account	-0.4	-0.6	-0.6	-0.5	-0.4
Financial account	127.6	52.8	32.8	20.2	38.4
Direct investment	12.8	36.1	27.7	23.2	8.6
Portfolio investment	93.7	82.3	-22.9	-38.5	70.9
Derivatives	0.4	0.3	2.0	6.6	-2.1
Other investments	15.5	-71.4	13.3	-45.1	24.0
International reserves	5.2	5.5	12.8	73.9	-63.0
Net errors and omissions	58.2	1.3	21.7	26.6	40.0

The current account balance was 71 b.kr. more negative than in the same quarter of 2019, owing primarily to less favourable services trade² in the amount of 87.9 b.kr. The difference stemmed mainly from

¹Tables 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/>.

²See the Statistics Iceland website.

services export values, which were lower by 133.5 b.kr. Services imports declined by 45.6 b.kr. The balance on goods trade was more favourable by 14 b.kr., owing to a reduction in imports of 10.7 b.kr. year-on-year, together with an increase in exports in the amount of 3.3 b.kr. The balance on primary income deteriorated by 1.8 b.kr., and the deficit on secondary income narrowed significantly, or by 4.7 b.kr.

The net international investment position was positive by 969 b.kr., or 33.5% of GDP, and improved by 142 b.kr., or 5% of GDP, during the quarter. Foreign assets totalled 4,522 b.kr. at the end of the quarter, while foreign liabilities totalled 3,552 b.kr. Net financial transactions improved the net international investment position by 39 b.kr. during the quarter, as external assets declined by 132 b.kr. due to financial transactions and external liabilities fell by 169 b.kr. Asset values rose somewhat, owing to price and exchange rate movements during the quarter, increasing by 188 b.kr., whereas liabilities grew by 51 b.kr. On the whole, price and exchange rate movements led to a 137 b.kr. improvement in the net international investment position. Prices in foreign securities markets rose by just over 7%, and domestic share prices fell by 2.4%. The króna depreciated by 3.1% in terms of the trade-weighted index.

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

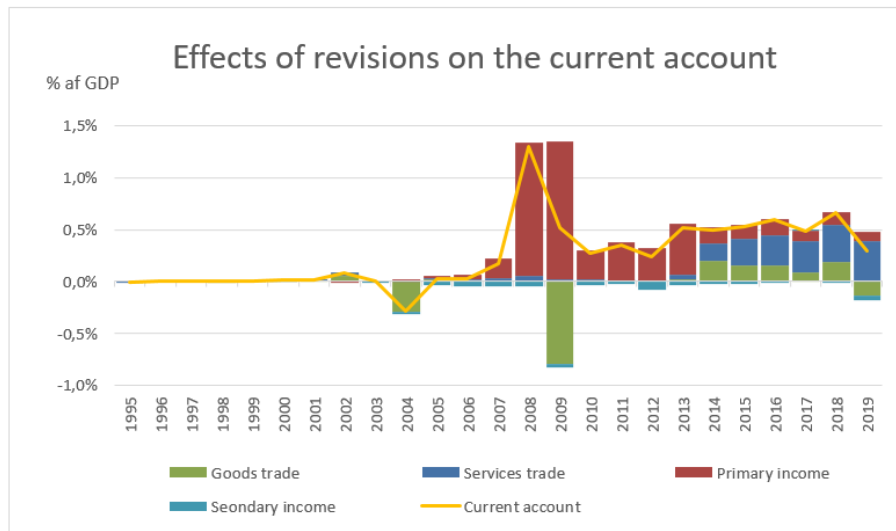
	Position at end-Q2/2020	Financial account	Exchange rate and price changes	Other changes	Position at end- Q3/2020
Foreign assets, total	4,469	-132	188	-4	4,522
Direct investment	923	-85	33	-3	868
Portfolio investment	1,971	18	136	0	2,126
Derivatives*	14	-12	10	0	13
Other investments	551	10	12	0	573
International reserves	1,009	-63	-3	0	943
Foreign liabilities, total	3,643	-169	51	27	3,552
Direct investment	1,227	-93	9	11	1,153
Portfolio investment	1,554	-53	26	11	1,538
Derivatives*	12	-8	5	0	9
Other investments	851	-15	10	5	852
Net international investment position (NIIP)	826	39	137	-31	969
% of GDP	28.5%	1.3%	4.7%	-1.1%	33.5%

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

Revision of statistics

The Central Bank has revised its quarterly statistics on the balance of payments and the IIP back to 1995. From now on, a benchmark revision will be carried out every five years.

The impact of the revision on the current account balance can be seen in the chart below. The revisions in goods and services account data are in line with figures published by Statistics Iceland last week. A revision of the methodology used to calculate interest expense on domestic bonds held by non-residents has the greatest impact in 2008 and 2009, or by 1.3% of GDP.³ Interest on the bonds is calculated for each bond separately, which gives a more accurate result than the previous method did.



Other subcomponents of primary income that were revised for the period from 2012 through 2020 are as follows: Icelanders' wage income from foreign employers; interest income on loans issued by deposit institutions and other financial institutions; and foreign pensioners' share in domestic pension funds' returns. These effects increase the current account surplus, albeit by less than 1 b.kr. in each quarter. Secondary income was also revised slightly, back to 2014. The revision takes account of more accurate information on research and development grants acquired from non-resident entities by domestic firms and institutions.

The revision of the net IIP and the financial account extends back to 1997. For 2008, the net IIP is slightly reduced because of an updated estimate of residents' foreign pension assets. In addition, foreign securities holdings increased by 0.3% to 1.9% of GDP upon revision, for the period from 2012 through 2015.

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³ In terms of current GDP.