

## Balance of payments in the second quarter of 2014 and the external position

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The Central Bank of Iceland has published on its website the preliminary statistics for the balance of payments in the second quarter of 2014, and for the external position at the end of the quarter.<sup>1</sup>

The Bank has adopted new standards for the compilation of statistics for the balance of payments and external position. This is the first publication using the new standards. The main changes in the new standards pertain to goods and services; primary income and secondary income; direct investments; special purpose entities; and insurance, pension, and standardised guarantee schemes. Further discussion of the changes can be found in an *Informational Report* published by the Central Bank today.<sup>2</sup>

The current account balance was positive by 2.9 b.kr. during the quarter, as opposed to a negative balance of 5.6 b.kr. in the preceding quarter. The balance on goods was negative by 18.9 b.kr., while the balance on services was positive by 34.2 b.kr. The balance on primary income was negative by 8.9 b.kr., and secondary income was negative in the amount of 3.4 b.kr. The current account balance excluding deposit institutions in winding-up proceedings was positive by 12.8 b.kr., as opposed to 2.9 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 4.7 b.kr. The negative effect of deposit institutions in winding-up proceedings on the balance on income totalled 9.9 b.kr. The balance on income excluding these institutions was therefore positive by 1 b.kr.

External assets totalled 5,415 b.kr. at the end of the quarter, while external liabilities totalled 12,898 b.kr. Thus the net external position was negative by 7,483 b.kr., and net liabilities declined by 55 b.kr. quarter-on-quarter. Excluding the financial institutions undergoing winding-up proceedings, assets totalled 3,507 b.kr. and liabilities 3,689 b.kr. Thus the net position was negative by 182 b.kr., and net liabilities declined by approximately 68 b.kr. quarter-on-quarter.

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

<sup>2</sup> See <http://sedlabanki.is/utgefid-efni/rit-og-skyrslur/upplýsingarit/>.

Developments in the main assets and liabilities items in the external position are illustrated, by quarter, in Table 2, and changes in these items are further classified by financial account transactions, exchange rate and price level changes, and other changes. The main changes in the second quarter of 2014 are due to exchange rate and price level changes, which led to an improved position in the amount of 64 b.kr. During the quarter, foreign assets increased by 17 b.kr. and foreign liabilities declined by 47 b.kr. as a result of these effects. As a result of net transactions, assets increased by 51 b.kr. and liabilities increased by 31 b.kr., and the external position of the economy improved by 19 b.kr. Other changes in assets and liabilities eroded the results by 27 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, II</u>	<u>2013, III</u>	<u>2013, IV</u>	<u>2014, I</u>	<u>2014, II</u>
<b>Current account</b>	<b>-1,4</b>	<b>63,9</b>	<b>21,9</b>	<b>-5,6</b>	<b>2,9</b>
Balance on goods	-16,7	3,3	9,4	-1,2	-18,9
Balance on services	39,5	69,9	19,3	14,4	34,2
Balance on primary income	-20,4	-5,0	-3,1	-13,4	-8,9
Secondary income, net	-3,8	-4,3	-3,7	-5,4	-3,4
<b>Capital account</b>	<b>-0,2</b>	<b>-0,4</b>	<b>-0,3</b>	<b>-0,6</b>	<b>-0,1</b>
<b>Financial account</b>	<b>25,3</b>	<b>75,7</b>	<b>10,0</b>	<b>45,5</b>	<b>19,5</b>
Direct investment	19,7	0,5	10,0	17,7	-7,7
Portfolio investment	49,4	36,1	27,2	35,2	0,3
Financial derivatives	0,4	0,7	0,0	0,5	0,2
Other investment	-29,8	45,0	-58,6	2,2	14,9
Reserve assets	-14,3	-6,6	31,4	-10,0	11,8
<b>Net errors and omissions</b>	<b>26,9</b>	<b>12,1</b>	<b>-11,7</b>	<b>51,8</b>	<b>16,7</b>
<i>Memorandum items:</i>					
<b>CA without DMBs undergoing winding-up proceedings</b>	<b>10,5</b>	<b>72,5</b>	<b>30,9</b>	<b>2,9</b>	<b>12,8</b>

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

	Position at end- Q1/2014	Financial account	Exchange rate and price changes	Other changes	Position at end- Q2/2014
<b>Total assets</b>	<b>5.340</b>	<b>51</b>	<b>17</b>	<b>8</b>	<b>5.415</b>
Direct investment	2.129	10	-3	0	2.137
Portfolio investment	1.214	32	26	-2	1.271
Financial derivatives	3	0	-2	0	2
Other investment	1.525	-3	-5	8	1.525
Reserves assets	468	12	0	0	481
<b>Total liabilities</b>	<b>12.878</b>	<b>31</b>	<b>-47</b>	<b>35</b>	<b>12.898</b>
Direct investment	1.959	17	-8	3	1.971
Portfolio investment	5.546	32	8	-2	5.584
Other investment	5.368	-18	-46	34	5.337
<b>International investment position</b>	<b>-7.538</b>	<b>19</b>	<b>64</b>	<b>-27</b>	<b>-7.483</b>
<i>Memorandum items:</i>					
<b>IIP excl. DMBs undergoing winding up proceedings</b>	-250	30	32	6	-182

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