

## Balance of payments in the third quarter of 2015 and the external 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 2015, and for the external position at the end of the quarter.<sup>2</sup>

The current account balance was positive by 48.7 b.kr. during the quarter, as opposed to a positive balance of 25.7 b.kr. in the preceding quarter. The balance on goods trade was negative by 12.3 b.kr., while the balance on services trade was positive by 90.4 b.kr. The balance on primary income was negative by 4.2 b.kr. and secondary income by 25.2 b.kr. The current account balance excluding the effects of deposit institutions in winding-up proceedings was positive by 53 b.kr., as opposed to a surplus of 30.7 b.kr. in the preceding quarter.

The deficit on secondary income was unusually large because of the 20 b.kr. settlement payment made by the Depositors' and Investors' Guarantee Fund in connection with Landsbanki Íslands' Icesave accounts. As before, the income account deficit is due largely to the deposit institutions in winding-up proceedings. Calculated expenditures due to these institutions totalled 10.1 b.kr., while revenues were 4.6 b.kr. The negative effect of deposit institutions in winding-up proceedings on the balance on income totalled 5.5 b.kr. The balance on income excluding these institutions was therefore positive by 1.3 b.kr.

Foreign assets totalled 5,274 b.kr. at the end of the quarter, while foreign liabilities totalled 12,769 b.kr. Thus the net external position was negative by 7,495 b.kr., and net liabilities declined by approximately 186 b.kr. quarter-on-quarter. Excluding the financial institutions undergoing winding-up proceedings, assets totalled 3,772 b.kr. and liabilities 3,750 b.kr. The net position was therefore positive by 22 b.kr., and net assets decreased by 62 b.kr. during the quarter. Table 2 illustrates developments in the main assets and liabilities items during the quarter, showing changes in the financial balance, changes in exchange rates and prices, and other changes. Net financial transactions

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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.cb.is/library/Skraarsafn---EN/Informational-Reports/InformationalReport5.pdf>

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

improved the international investment position by approximately 48 b.kr., as foreign assets increased by 16 b.kr. and foreign liabilities declined by 32 b.kr. as a result of the transactions. Exchange rate and price changes improved the position in the amount of 144 b.kr. During the quarter, foreign assets and liabilities decreased by 266 b.kr. and 410 b.kr., respectively, as a result of these effects. The króna depreciated against most currencies in the third quarter, or by 5.4% in terms of the trade-weighted index. The króna fell by 6.4% against the pound sterling, 3.2% against the US dollar, and 3% against the euro. Foreign share prices fell by an average of 9% during the quarter, whereas bond prices rose by 1.5%.

### **Underlying international investment position**

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

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

	<u>2014, III</u>	<u>2014, IV</u>	<u>2015, I</u>	<u>2015, II</u>	<u>2015, III</u>
<b>Current account</b>	<b>42,5</b>	<b>25,9</b>	<b>6,2</b>	<b>25,7</b>	<b>48,7</b>
Balance on goods	-9,6	15,4	3,9	-12,7	-12,3
Balance on services	77,8	11,0	20,4	58,5	90,4
Balance on primary income	-21,5	4,0	-13,7	-15,4	-4,2
Secondary income, net	-4,3	-4,4	-4,4	-4,7	-25,2
<b>Capital account</b>	<b>-0,4</b>	<b>-0,4</b>	<b>-0,4</b>	<b>-0,3</b>	<b>-0,4</b>
<b>Financial account</b>	<b>-5,1</b>	<b>66,6</b>	<b>2,1</b>	<b>103,5</b>	<b>48,0</b>
Direct investment	-77,6	23,8	-129,5	80,5	-6,1
Portfolio investment	-115,3	-65,4	-46,7	15,3	-68,0
Financial derivatives	0,4	-0,5	-2,7	0,0	5,0
Other investment	130,7	131,8	122,8	-28,0	111,9
Reserve assets	56,7	-23,0	58,1	35,7	5,2
<b>Net errors and omissions</b>	<b>-47,2</b>	<b>41,1</b>	<b>-3,8</b>	<b>78,1</b>	<b>-0,3</b>
<i>Memorandum items:</i>					
<b>CA without DMBs undergoing winding-up proceedings</b>	<b>49,9</b>	<b>33,0</b>	<b>13,6</b>	<b>30,7</b>	<b>53,0</b>

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

	Position at end-Q2/2015	Financial account	Exchange rate and price changes	Other changes	Position at end-Q3/2015
<b>Total assets</b>	<b>5.527</b>	<b>16</b>	<b>-266</b>	<b>-3</b>	<b>5.274</b>
Direct investment	2.144	14	-83	0	2.075
Portfolio investment	1.373	-97	-106	0	1.170
Financial derivatives*	12	-4	3	0	12
Other investment	1.394	97	-58	-2	1.430
Reserves assets	605	5	-21	-1	587
<b>Total liabilities</b>	<b>13.208</b>	<b>-32</b>	<b>-410</b>	<b>3</b>	<b>12.769</b>
Direct investment	2.111	20	-59	3	2.075
Portfolio investment	6.131	-29	-189	8	5.921
Financial derivatives*	20	-9	3	0	14
Other investment	4.947	-15	-165	-8	4.759
<b>International investment position</b>	<b>-7.681</b>	<b>48</b>	<b>144</b>	<b>-6</b>	<b>-7.495</b>
<i>Memorandum items:</i>					
<b>IIP excl. DMBs undergoing winding up proceedings</b>	<b>84</b>	<b>57</b>	<b>-100</b>	<b>-20</b>	<b>22</b>

\*Other changes in financial derivatives are counted under exchange rate and price changes.

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