

Current account deficit 31.1 b.kr. in Q2/2021 – net IIP positive by 36.6% of GDP

Iceland's current account showed a deficit of 31.1 b.kr. in Q2/2021. This represents a deterioration of 8.3 b.kr. relative to the previous quarter and 24.8 b.kr. relative to Q2/2020. The deficit on goods trade totalled 55.7 b.kr., while the surplus on services trade totalled 25.2 b.kr. The surplus on primary income amounted to 7.1 b.kr., whereas there was a 7.6 b.kr. deficit on secondary income (Table 1).

This is included in new information published on the Central Bank of Iceland website, showing the preliminary balance of payments in Q2/2021 and the external position of the economy at the end of the quarter.¹

Table 1. Balance of payments (b.kr.)

	<u>2020/2</u>	<u>2020/3</u>	<u>2020/4</u>	<u>2021/1</u>	<u>2021/2</u>
Current account balance	-6.3	0.8	22.2	-22.8	-31.1
Balance on goods	-19.6	-32.1	-15.6	-21.0	-55.7
Balance on services	2.2	19.9	25.9	-7.4	25.2
Balance on primary income	18.2	14.6	20.3	13.3	7.1
Secondary income, net	-7.1	-1.7	-8.4	-7.6	-7.6
Capital account	-0.5	-0.3	-0.9	-0.7	-0.8
Financial account	47.9	59.1	14.0	18.0	16.3
Direct investment	32.3	15.2	8.3	43.6	24.5
Portfolio investment	-21.5	89.5	49.7	-124.1	29.3
Derivatives	6.6	-2.1	-0.8	-0.9	2.6
Other investments	-44.1	19.6	9.0	20.4	-53.4
International reserves	74.7	-63.0	-52.2	79.0	13.4
Net errors and omissions	54.7	58.6	-7.3	41.4	48.2

The poorer current account balance relative to Q2/2020 is attributable mainly to considerably less favourable goods trade² in the amount of 36.1 b.kr. The main difference lies in imported goods values, which were higher by 70.2 b.kr., whereas exported goods values rose much

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](#).

less, or by 34.1 b.kr. The balance on services was more favourable by 23 b.kr. The primary income balance deteriorated by 11.1 b.kr., and the deficit on secondary income widened by 0.5 b.kr.

At the end of the quarter, the net international investment position was positive by 1,120 b.kr., or 36.6% of GDP, and improved by 79 b.kr., or 2.6% of GDP, during the quarter. Foreign assets totalled 4,566 b.kr. at the end of the quarter, while foreign liabilities totalled 3,445 b.kr. Net financial transactions improved the net international investment position by 16 b.kr. during the quarter, as external assets increased by 15 b.kr. due to financial transactions and external liabilities decreased by 2 b.kr. Asset values rose by 78 b.kr. during the quarter, owing to price and exchange rate movements, and liabilities rose by 1 b.kr. Price and exchange rate movements therefore improved the net external position by 78 b.kr. Prices in foreign securities markets rose by nearly 8% between quarters, and prices in the domestic stock market rose by 9.4%. The króna appreciated by 1.5% in terms of the trade-weighted index.

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

	Position at end- Q1/2021	Financial account	Exchange rate and price changes	Other changes	Position at end- Q2/2021
Foreign assets, total	4,487	15	78	-14	4,566
Direct investment	788	12	-11	-8	780
Portfolio investment	2,254	14	109	0	2,378
Derivatives*	8	-5	5	0	8
Other investments	580	-20	-10	-5	544
International reserves	857	13	-15	0	856
Foreign liabilities, total	3,445	-2	1	1	3,445
Direct investment	1,031	-13	-10	-6	1,002
Portfolio investment	1,567	-15	11	0	1,564
Derivatives*	10	-7	9	0	12
Other investments	837	33	-9	6	868
Net international investment position (NIIP)	1,041	16	78	-15	1,120
% of GDP	34.1%	0.5%	2.5%	-0.5%	36.6%

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

The classification of government-owned corporations has been revised to accord with the national accounts sector classification.³ This affects the table on external liabilities, as liabilities have been shifted from “other financial corporations” to “general government.” As a result, public sector debt increases by 4.2 b.kr., or 0.1% of GDP, based on the end-Q2/2021 value. In the time series Foreign Liabilities on the Central

³See: <https://hagstofa.is/utgafur/utgafa/thjodhagsreikningar/flokkun-stofnanaeininga-i-thjodhagsreikningum/>

Bank's [Statistics pages](#), liabilities of government-owned companies are itemised separately from the Treasury.