

Balance of payments in the first quarter of 2016 and the international investment position

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

The current account balance was positive by 2.1 b.kr. during the quarter, as opposed to a positive balance of 7.8 b.kr. in the preceding quarter. The balance on goods trade was negative by 25.6 b.kr., while the balance on services trade² was positive by 26.9 b.kr. The balance on primary income was positive by 5.4 b.kr., whereas secondary income was negative in the amount of 4.5 b.kr. The impact of the deposit money banks in winding-up proceedings on the primary income balance is negligible following the approval of their composition agreements last December.

Foreign assets totalled 4,215 b.kr. at the end of the quarter, while foreign liabilities totalled 4,347 b.kr. The net position is therefore negative by 131 b.kr., or 5.9% of GDP. Net liabilities increased between quarters by 4 b.kr., or 0.2% of GDP. During the quarter, the deposit money banks in winding-up proceedings made cash distributions to their creditors and also issued debt and equity securities in the companies and distributed these to creditors. At the end of the quarter, their debt totalled 598 b.kr., which will be paid later, as asset sales move forwards.³ The valuation of the companies' liabilities as of end-2015 has been revised since the last publication.⁴ The liabilities are now presented at market value instead of nominal value, as was done previously. This presentation better reflects the amount that is estimated to be distributed to creditors. The impact of this is an improvement in the external position of the economy as of year-end 2015 in the amount of 172 b.kr., or 8.8% of GDP.

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

² <http://www.statice.is/publications/news-archive/external-trade/external-trade-in-services-1st-quarter-2016-preliminary-figures/>

³ 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.

⁴ The amount in question is classified under the item "other accounts receivable/payable", as all of the companies' liabilities are now entered as securities liabilities following the issuance of bonds in Q1/2016.

Net financial transactions deteriorated the international investment position by approximately 14 b.kr. There off foreign assets declined by 528 b.kr. and foreign liabilities by 514 b.kr. as a result of the transactions. Exchange rate movements and price changes had a negative impact on the external position in the amount of 103 b.kr. during the quarter. The króna depreciated against most major currencies during the quarter, or by 1.6% in terms of the trade-weighted index.

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

	<u>2015, Q1</u>	<u>2015, Q2</u>	<u>2015, Q3</u>	<u>2015, Q4</u>	<u>2016, Q1</u>
Current account balance	7.8	27.7	50.3	7.8	2.1
Balance on goods	3.5	-12.6	-12.2	-14.2	-25.6
Balance on services	20.7	58.7	90.1	21.2	26.9
Balance on primary income	-11.8	-13.6	-2.3	6.0	5.4
Secondary income, net	-4.5	-4.7	-25.3	-5.3	-4.5
Capital account	-0.4	-0.3	-0.4	-0.4	-0.3
Financial account	-20.3	74.4	47.6	38.1	-13.9
Direct investment	-126.9	59.4	-1.0	-0.8	-12.1
Portfolio investment	-49.7	14.7	-70.4	609.7	77.1
Derivatives	-2.7	0.0	5.0	-0.1	0.7
Other investments	118.6	-27.0	105.5	-638.0	-177.8
Foreign exchange reserves	40.5	27.3	8.5	67.2	98.3
Net errors and omissions	-27.7	47.1	-2.4	30.8	-15.6

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

	Position at end 2015, Q4	Financial account	Exchange rate and price changes	Other changes	Position at end 2016, Q1
Foreign assets, total	4,790	-528	-147	101	4,215
Direct investment	1,997	-23	-64	-2	1,908
Portfolio investment	926	8	-41	0	893
Derivatives*	10	0	-1	0	10
Other investments	1,203	-612	-22	100	670

Foreign exchange reserves	653	98	-20	3	735
Foreign liabilities, total	4,917	-514	-45	-12	4,347
Direct investment	2,020	-11	-46	146	2,109
Portfolio investment	975	-69	3	667	1,577
Derivatives*	14	0	-2	0	12
Other investments	1,908	-434	1	-825	650
International investment position	-127	-14	-103	113	-131
International investment position, % of GDP	-5.7%	-0.6%	-4.6%	5.1%	-5.9%

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

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