BOX IV-2

In assessing the economic outlook, the Central Bank considers numerous indicators that are measured at a higher frequency than the variables being forecasted. The Bank has recently begun using the number of payment orders for settlement of cross-border trade as an indicator. This variable appears to have considerable forecasting value for developments in imports to Iceland. Because these data are available well before the national accounts are published for the quarter concerned, they improve the Bank's short-term forecasts of imports.

Payment orders for settlement of cross-border trade
When a cross-border transaction is settled, a payment order is sent from the importer's bank to the exporter's bank, and the settlement takes place through a global cooperative system, the Society for Worldwide Interbank Financial Telecommunication, commonly referred to as SWIFT. Since February 2012, SWIFT has compiled indices prepared from its payment intermediation systems, both for the world as an aggregate and for the OECD as a whole. Indices for the European Union, the US, the UK, and Germany were introduced in February 2013. These indices are used increasingly as high-frequency indicators for global economic activity.[1] They measure the number of payment orders sent by a central bank, as the agent of its domestic banks, to foreign banks in the form of requests for payment (so-called MT103 messages). They are available on a monthly frequency since January 2005. The number of payment orders is used rather than the amount of money they represent because it is considered to provide more reliable information on economic activity, as individual payment orders can entail very large amounts (in the case of swap agreements, for instance) that have limited relevance for real economic activity.[2]

Indicative value for developments in imports
As expected, these data have considerable forecasting value as indicators of developments in imports, as they are, in essence, a mirror image of actual payments made for residents' purchases of goods and services from abroad (Chart 1). The contemporaneous correlation of annual changes in the number of MT103 messages and annual changes in total imports was 0.83 for the period as a whole. The contemporaneous correlation with annual changes in goods imports is slightly lower, at 0.81, and for services imports it is 0.76. The correlation is greatest with annual changes in total imports. The contemporaneous correlation with annual changes in GDP was 0.59 over the same period. This indicator has therefore been added to the large number of indicators used to assess recent developments in economic activity and to aid the Bank's short-term forecasts.

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1. For further information, see the SWIFT website: http://www.swift.com/index.page?lang=en.
2. Because there is no SWIFT index for Iceland, the number of MT103 messages since January 2005 is used; however, data for 2001-2004 have been prepared from the MT103 super-category, based on estimated MT103 values.

Box IV-2
Indicators of developments in imports based on cross-border payment intermediation orders

Chart 1
Goods and services imports and the number of MT103 messages
Q1/2002 - Q4/2013

Change from same quarter of previous year (%)

— Goods and services imports
— Goods imports
— Services imports
— Number of MT103 messages
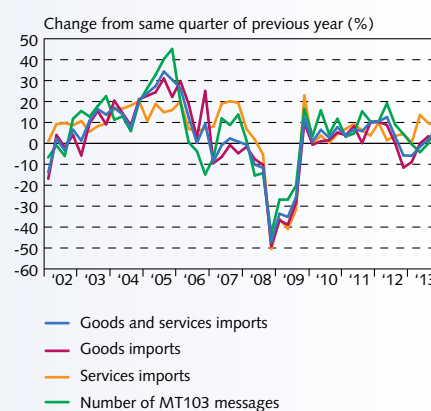
Sources: Statistics Iceland, SWIFT.