

Balance of payments in the first quarter of 2015 and the international investment position¹

The Central Bank of Iceland has published on its website the preliminary statistics for the balance of payments in the first quarter of 2015, and for the external position at the end of the quarter.²

The current account balance was positive by 3.3 b.kr. during the quarter, as opposed to a positive balance of 29.7 b.kr. in the preceding quarter. The balance on goods trade was negative by 2.1 b.kr., while the balance on services trade was positive by 19.5 b.kr. The balance on primary income was negative by 10.8 b.kr. and secondary income by 3.2 b.kr. The current account balance excluding the effects of deposit institutions in winding-up proceedings was positive by 12 b.kr., as opposed to a surplus of 38.6 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 13.2 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 8.6 b.kr. The balance on income excluding these institutions was therefore negative by 2.2 b.kr.

Foreign assets totalled 5,627 b.kr. at the end of the quarter, while foreign liabilities totalled 13,564 b.kr. Thus the net position was negative by 7,937 b.kr., and net liabilities increased by 131 b.kr. quarter-on-quarter. Excluding the financial institutions undergoing winding-up proceedings, assets totalled 4,042 b.kr. and liabilities 4,031 b.kr., yielding a positive net balance of 12 b.kr. Net liabilities declined by 122 b.kr. between quarters. Table 2 illustrates developments in the main assets and liabilities items during the quarter, showing transactions in the financial account, changes in exchange rates and prices, and other changes. Net financial transactions therefore improved the international investment position by approximately 16 b.kr., as foreign assets increased by 181 b.kr. and foreign liabilities by 165 b.kr. as a result of the transactions. Exchange rate movements had a sizeable impact on the

¹ 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.sedlabanki.is/library/Skr%C3%A1arsafn/Uppl%C3%BDsingarit/Uppl%C3%BDsingarit%20nr%20%205.pdf>

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

international investment position, as the króna depreciated by over 8% against the US dollar and about 3% against the pound. Against the euro, however, it appreciated by nearly 5%. In trade-weighted terms, however, it appreciated by 0.7%. The price of foreign equities and bonds rose by an average of just under 2%. The combined exchange rate and price changes led to a weaker position in the amount of 200 b.kr. During the quarter, foreign assets increased by 109 b.kr. and foreign liabilities increased by 309 b.kr. as a result of these effects. Other changes in assets and liabilities lead to an improvement in the international investment position by 53 b.kr.

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, I</u>	<u>2014, II</u>	<u>2014, III</u>	<u>2014, IV</u>	<u>2015, I</u>
Current account balance	-1,0	10,3	45,1	29,7	3,3
Balance on goods	-1,1	-14,0	-11,3	15,4	-2,1
Balance on services	15,6	32,7	78,7	11,8	19,5
Balance on primary income	-11,3	-4,3	-17,7	7,1	-10,8
Secondary income, net	-4,3	-4,1	-4,7	-4,6	-3,2
Capital account	-0,6	-0,2	-0,4	-0,4	-0,1
Financial account	6,9	39,7	-7,6	70,3	16,2
Direct investment	-2,5	-24,6	-77,6	23,8	-129,0
Portfolio investment	30,8	5,6	-116,2	-65,5	-47,8
Financial derivatives	-0,5	-0,2	0,5	-0,5	-2,7
Other investments	-10,8	47,1	129,0	135,5	134,6
Reserve assets	-10,0	11,8	56,7	-23,0	61,1
Net errors and omissions	8,5	29,6	-52,3	41,0	13,0
<i>Memorandum items:</i>					
CA excluding DMBs undergoing winding-up proceedings	7,2	20,1	54,6	38,6	12,0

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

	Position at end-Q4/2014	Financial account	Exchange rate and price changes	Other changes	Position at end-Q1/2015
Foreign assets, total	5.306	181	109	31	5.627
Direct investment	2.176	-27	30	11	2.189
Portfolio investment	1.323	-7	81	-1	1.396
Financial derivatives	12	-3	2	0	12
Other investments	1.266	157	-6	20	1.438
Reserve assets	530	61	1	0	593
Foreign liabilities, total	13.112	165	309	-22	13.564
Direct investment	2.105	102	8	-3	2.212
Portfolio investment	6.043	41	180	-3	6.261
Financial derivatives	18	0	0	4	22
Other investments	4.947	23	120	-19	5.070
International investment position	-7.806	16	-200	53	-7.937
<i>Memorandum items:</i>					
IIP excluding DMBs undergoing winding-up proceedings	-110	27	71	23	12

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