

Balance of payments in the second quarter of 2005 and the external position

The deficit on Iceland's current account in the second quarter of 2005 amounted to 34.1 billion kr. according to preliminary figures from the Central Bank. In the first half of the year the current account deficit was 65 b.kr., widening sharply from the 33.9 b.kr. deficit recorded in the first half of 2004. Measured at fixed exchange rates¹, first-half exports of goods and services increased by 11.5% year-on-year, and imports by 30.2%. The deficit on the income account was 9.7 b.kr. in the first half of 2005, an increase of 1.2 b.kr. from the corresponding period the preceding year.

Balance of payments in b.kr.

	<i>April - June</i>		<i>January - June</i>	
	<i>2004</i>	<i>2005</i>	<i>2004</i>	<i>2005</i>
Current Account	-20.7	-34.1	-33.9	-65.0
Exports of goods and services	75.0	81.2	147.9	150.6
Imports of goods and services	-94.2	-112.3	-173.2	-205.9
Income and current transfer, net	-1.5	-3.0	-8.5	-9.7
Capital and Financial Account	40.7	53.3	52.6	165.0
Financial account excl. reserves	43.7	54.0	63.2	162.5
External assets, net	-88.7	-421.3	-165.3	-507.5
External debt, net	132.4	475.3	228.5	670.0
Reserve assets (- increase)	-2.9	-0.2	-10.4	3.4
<i>Net errors and omissions</i>	<i>-20.0</i>	<i>-19.2</i>	<i>-18.8</i>	<i>-99.9</i>

Net capital inflow measured 165 b.kr. in the first half 2005. This is largely explained by heavy foreign borrowing in the form of bond and note issues and banks loans, while measured inflows due to non-residents' purchases of securities issued in Iceland have been small so far this year. Outflows in connection with foreign portfolio investment by residents' amounted to 35.8 b.kr., while foreign direct investment by residents rose sharply in the first half of this year, amounting to 136.3 b.kr. However, Bakkavör Group's recent acquisition of a UK food company is not classified as direct foreign investment by residents since it was made in the name of the Group's subsidiary in London. A syndicated foreign loan taken to leverage the acquisition is therefore not included in Iceland's external debt. A large outflow also

¹ The trade-weighted exchange rate index was 8.7% lower in the first half of 2005 than in the corresponding period a year before.

took place in connection with other capital formation abroad, involving both lending and growth in overseas deposits by domestic banks. The Central Bank's foreign reserves amounted to 62.4 b.kr. at the end of June and had decreased by 3.4 b.kr. since the beginning of the year due to retirement of Treasury debt.

Iceland's international investment position was negative by 905.7 b.kr. at the end of June 2005, which was 255 b.kr. more than at the beginning of the year. The increase cannot be fully explained by the current account deficit or price changes, since the figure for errors and omissions is negative by 100 b.kr. in the first half of 2005. The bulk of these errors and omissions was recorded in the first quarter, as reported in the Bank's press release on June 3. The figure shrank slightly when balance of payments figures for the first quarter were revised. Updated information reduced the figure for imports of services by 2.5 b.kr. and raised merchandise exports by 4 b.kr.

Detailed information on the balance of payments and external position in 2005 is presented in the attached tables, along with revised statistics for previous years incorporating more recent information on direct investment and income from it.

On Monday September 5, 2005, the Central Bank will publish tables showing the balance of payments and external position on the Statistics page of its website (www.sedlabanki.is). A table showing Iceland's gross external debt will also be published in accordance with the IMF's Special Data Dissemination Standard, classified by sectors, maturity and instruments.

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BALANCE OF PAYMENTS

<i>m.kr.</i>	April - June		January - June		<i>change¹ on prev. year</i>
	2004	2005	2004	2005	
Current Account	-20,687	-34,120	-33,872	-65,040	
Exports of goods and services	74,970	81,198	147,885	150,588	11.5%
Imports of goods and services	-94,166	-112,281	-173,222	-205,912	30.2%
Balance on income and current transfer, net	-1,491	-3,037	-8,535	-9,716	24.6%
Balance on Goods	-13,636	-20,955	-13,888	-36,271	
Merchandise exports f.o.b.	47,845	51,860	99,120	98,548	8.9%
Merchandise imports f.o.b.	-61,481	-72,815	-113,008	-134,819	30.6%
Balance on Services	-5,560	-10,128	-11,449	-19,053	
Exports of services, total	27,125	29,338	48,765	52,040	16.8%
Transportation	14,521	17,054	26,552	29,860	23.1%
Travel	6,020	5,796	9,395	9,033	5.3%
Other receipts	6,584	6,488	12,818	13,147	12.3%
Imports of services, total	-32,685	-39,466	-60,214	-71,093	29.3%
Transportation	-11,885	-14,559	-22,928	-26,585	27.0%
Travel	-12,501	-15,494	-21,650	-26,794	35.5%
Other expenditures	-8,299	-9,413	-15,636	-17,714	24.0%
Balance on Income, net	-1,160	-2,740	-7,869	-9,227	
Receipts	12,980	20,192	18,123	32,163	94.3%
Compensation of employees	1,231	922	2,765	1,946	-22.9%
Interest and investment income received ²	11,749	19,270	15,358	30,217	115.4%
Expenditures	-14,140	-22,932	-25,992	-41,390	74.4%
Compensation of employees	-164	-284	-393	-490	36.5%
Interest and investment income paid ²	-13,976	-22,648	-25,599	-40,900	74.9%
Current transfer	-331	-297	-666	-489	
Capital and Financial Account	40,678	53,289	52,644	164,981	
Capital transfer, net	-201	-499	-170	-873	
Financial account ³	40,879	53,788	52,814	165,854	
Financial Account excl. reserves	43,736	54,028	63,183	162,486	
Direct investment, net	-20,158	-99,580	-36,970	-120,856	
Abroad	-22,833	-108,354	-48,654	-136,258	
In Iceland	2,675	8,774	11,684	15,402	
Portfolio investment, net	62,961	340,317	167,204	514,965	
Assets	-9,494	-25,414	-34,092	-35,787	
Equities	-8,079	-22,459	-32,015	-30,920	
Debt securities	-1,415	-2,955	-2,077	-4,867	
Liabilities	72,455	365,731	201,296	550,752	
Equities	-982	-311	-1,457	-2,419	
Debt securities	73,437	366,042	202,753	553,171	
Other investment, net	933	-186,709	-67,051	-231,623	
Assets	-56,345	-287,523	-82,597	-335,438	
Liabilities	57,278	100,814	15,546	103,815	
Reserve assets	-2,857	-240	-10,369	3,368	
Net errors and omissions	-19,991	-19,169	-18,772	-99,941	
<i>Exchange rate index (1994 = 100)</i>	<i>105.0</i>	<i>95.4</i>	<i>103.8</i>	<i>94.8</i>	<i>-8.7%</i>

1) Calculated at fixed prices based on the average exchange rate index of the króna.

2) Dividends and reinvested earnings.

3) Negative number represents capital outflow due to increase in assets or decrease in liabilities.

EXTERNAL POSITION

<i>End of period in b.kr.:</i>	2002	2003	2004	<i>March*</i> 2005	<i>June*</i> 2005
I. Total assets	409.3	708.2	1,133.9	1,156.4	1,553.2
1 Direct investment abroad	101.2	122.5	255.2	259.3	323.1
11 Equity capital	82.3	110.5	218.0	229.5	279.6
12 Other capital	18.9	12.1	37.1	29.8	43.5
2 Portfolio assets	159.7	262.3	344.4	340.8	376.2
21 Equity capital	149.3	239.2	316.5	307.7	340.4
22 Debt securities	10.4	23.1	27.9	33.0	35.8
221 Bonds and notes	9.6	22.7	27.8	32.8	35.7
222 Money-market instruments	0.8	0.4	0.2	0.2	0.2
3 Financial derivatives	0.0	0.0	0.0	0.0	0.0
4 Other investment, assets	111.2	265.2	468.7	496.8	791.4
5 Reserves	37.2	58.1	65.6	59.5	62.4
II. Total liabilities	989.2	1,259.0	1,814.8	1,974.3	2,458.9
1 Direct investment in Iceland	64.3	84.6	110.7	123.3	122.9
11 Equity capital	56.1	61.8	97.2	110.2	110.2
12 Other capital	8.2	22.8	13.5	13.1	12.7
2 Portfolio liabilities	490.3	776.2	1,302.2	1,460.8	1,835.5
21 Equity capital	35.9	42.6	86.5	106.7	112.3
22 Debt securities	454.4	733.6	1,215.7	1,354.0	1,723.2
221 Bonds and notes	389.7	611.1	1,082.6	1,256.4	1,593.6
222 Money-market instruments	64.7	122.5	133.0	97.6	129.6
3 Financial derivatives	0.0	0.0	0.0	0.0	0.0
4 Other investment, liabilities	434.6	398.3	402.0	390.3	500.6
41 Long-term loans	296.2	252.0	206.7	205.8	223.1
42 Short-term debt	138.4	146.3	195.3	184.5	277.5
III. International investment position	-579.9	-550.8	-680.9	-817.9	-905.7
1. Equity capital, net	150.3	234.5	374.6	337.0	428.4
2. Net external debt position	-730.2	-785.3	-1,055.5	-1,154.9	-1,334.1
21 Central Bank	20.8	58.1	65.5	59.3	62.2
22 General governments	-227.2	-213.7	-205.8	-190.5	-188.2
23 Deposit Money Banks	-361.8	-471.1	-778.2	-900.5	-1,044.6
24 Other sectors	-162.0	-158.6	-136.9	-123.3	-163.5
<i>Exchange rate, ISK per USD</i>	80.58	70.99	61.04	60.58	64.56
IV. External debt ratio:¹					
11 Intern. investment position	-81.6	-70.2	-86.6	-86.2	-91.8
12 Net external debt ²	102.7	100.1	134.3	121.7	135.3
13 External debt position ³	125.1	144.3	205.8	183.9	225.5
131 Of which long-term debt	96.5	110.0	164.0	154.1	184.2

*) Preliminary figures

1) GDP is calculated at a corresponding exchange rate to that of external debt at the end of the period.

2) Net debt (liabilities less assets) excluding equities.

3) Total liabilities less equities.