

## Balance of payments in the fourth quarter of 2006 and the external position

The Central Bank of Iceland will today publish on its website preliminary statistics for the balance of payments in the fourth quarter of 2006 and the year as a whole, and for the external position at the end of 2006.<sup>1</sup>

The deficit on the current account was 91 b.kr. in Q4/2006. Over the whole of 2006, the current deficit amounted to 305.4 b.kr. compared to 164.8 b.kr. the year before. There was a deficit on all current accounts: goods, services, income and current transfer, both in Q4 and over the year. The balance on income deteriorated most sharply in 2006, with expenditures more than doubling year-on-year, mainly due to higher interest rates in international markets. Large profits of domestic companies owned by non-resident investors also play a major part, since these are measured as expenditure on the income account and are reinvested at the same time in the companies, i.e. appear as direct foreign investment in Iceland.

Net financial inflow measured 405.7 b.kr. over 2006, with gross inflow of 1,796 b.kr. and gross outflow amounting to 1,390 b.kr. Foreign direct investment in Iceland by non-residents amounted to 226 b.kr. and foreign direct investment abroad by residents 293 b.kr. In other respects, most of the capital movements were accounted for by foreign borrowing by banks and corporations.

### *Balance of payments in b.kr.*

	<i>Oct. - Dec.</i>		<i>January - December</i>	
	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>
<b>Current Account</b>	<b>-61.1</b>	<b>-91.0</b>	<b>-164.8</b>	<b>-305.4</b>
Exports of goods and services	75.2	89.6	323.2	370.1
Imports of goods and services	-117.0	-141.2	-448.7	-571.1
Income and current transfer, net	-19.3	-39.4	-39.3	-104.4
<b>Capital and Financial Account</b>	<b>28.2</b>	<b>146.8</b>	<b>136.6</b>	<b>405.7</b>
Financial account excl. reserves	25.1	239.9	143.0	492.9
External assets, net	-616.9	-588.8	-1,427.9	-1,304.8
External debt, net	641.9	828.7	1,570.9	1,797.7
Reserve assets (- increase)	3.7	-92.5	-4.7	-85.4
<i>Net errors and omissions</i>	<i>32.8</i>	<i>-55.9</i>	<i>28.2</i>	<i>-100.3</i>

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

The large errors and omissions item in the balance of payments in Q4 and for the year as a whole is expected to decrease as more complete data become available. One explanation may be that accrued interest is included in the balance of income but no adjustment is made for the difference between accrued and paid interest in the financial account. However, the main explanation is that data on the timing of underlying payment flows for merchandise trade and capital movements are as yet incomplete.

Iceland's international investment position was negative by 1,355 b.kr. at the end of 2006, having deteriorated by almost 500 b.kr. over the year. Foreign assets amounted to 4,500 b.kr. and foreign liabilities to 5,855 b.kr. at the end of 2006.

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