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## Balance of payments in the third quarter of 2007 and the external position

Today the Central Bank of Iceland will publish on its website the preliminary statistics for the balance of payments in the third quarter of 2007 and the external position at the end of September.<sup>1</sup>

The deficit on the current account was 31 b.kr. in Q3/2007, compared with 48.5 b.kr. in the second quarter. The principal explanation for this improvement is a turnaround in the income account in the amount of 16.5 b.kr. On the expenditure side, the reduction was approximately 20.5 b.kr., primarily because no dividend payments to foreign entities were recorded during the quarter, while they totalled nearly 20 b.kr. in Q2/2007. Dividend payments generally fall in the second quarter of the year. Reinvested earnings were 10 b.kr. less than in Q2; however, other interest expense increased. Income was 4 b.kr. less than in the second quarter, primarily because no dividend payments to domestic entities were recorded during the quarter, as opposed to more than 13 b.kr. recorded in Q2. Offsetting this was the increase in reinvestment and other interest income.

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

	<i>July - September</i>		<i>Jan. - September</i>	
	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>
<b>Current Account</b>	-78.8	-30.9	-207.2	-110.5
Exports of goods and services	102.9	105.8	282.1	321.1
Imports of goods and services	-150.1	-144.9	-428.1	-422.6
Income and current transfer, net	-31.6	8.1	-61.2	-9.0
<b>Capital and Financial Account</b>	-47.2	64.7	388.9	75.3
Financial account excl. Reserves	-46.3	71.4	383.0	80.5
External assets, net	-339.5	-455.2	-138.4	-1739.2
External debt, net	293.2	526.5	758.3	1819.7
Reserve assets (- increase)	-0.7	-6.2	-149.2	-3.6
Net errors and omissions	126.0	-33.7	-181.7	35.1

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

The deficit in the service account totalled roughly 5.7 b.kr., compared with 11.1 b.kr. in the second quarter. The improvement, which appears in the travel and tourism item in the account, stems from the increased number of tourists visiting Iceland.

Net financial inflow totalled 64.7 b.kr. in Q3/2007, just over half that for the second quarter. The main reasons for this development are that inward foreign direct investment was 160 b.kr. less than in Q2, while net maturities of deposit money bank bond issues totalled 146 b.kr. Furthermore, direct outward foreign investment dropped by 227 b.kr. in the third quarter.

The current account deficit for the first nine months of the year was 110.5 b.kr., a year-on-year improvement over 2006, when it totalled 207.2 b.kr. This is because of increased net receipts on the income account, which recorded a 9 b.kr. deficit, as opposed to 61 b.kr. a year ago.

Iceland's international investment position was negative by 1,377 b.kr. at the end of Q3/2007, after deteriorating by 50 b.kr. during the quarter. Foreign short-term liabilities rose by 445 b.kr. during the quarter, driven by non-residents' deposits in domestic deposit money banks, which increased by 188 b.kr., and by short-term borrowings, which rose by 258 b.kr. The balance of long-term borrowings rose by 219 b.kr. Measured in terms of the Central Bank's trade weighted exchange rate index, the exchange rate of the króna was 3 % lower at the end of September than at the end of June.

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