

Balance of payments in the second quarter of 2008 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 second quarter of 2008, and for the external position at the end of the quarter.¹

Losses on residents' outward foreign direct investment (so-called reinvestment) are the primary reason for the current account deficit of 128.1 b.kr. in Q2/2008. The income account deficit has never before been so high and is largely a result of losses on foreign direct investment. Interest expense on foreign debt has also risen. The merchandise account was broadly in balance during the quarter, while the services account balance was negative in the amount of 9.4 b.kr. Exchange rate effects were negligible during the quarter.

Net financial outflow totalled 55.5 b.kr. in Q2, as compared with net inflow amounting to 133.2 b.kr. in Q1. Non-residents are estimated to own 64.7 b.kr. of the 75 b.kr. of certificates of deposit issued by the Central Bank in the first half of 2008. Non-residents' inward foreign direct investment declined by 107.6 b.kr., primarily due to funding activities related to the transfer of companies across borders, while Icelanders' outward foreign direct investment increased by approximately 10.8 b.kr. Non-residents' domestic bond holdings decreased by 286.5 b.kr.

The errors and omissions item in the quarterly accounts is large but positive, and it nearly offsets the negative errors and omissions item from the past four quarters. The Bank's experience is that this item is most often attributable to insufficient financial account information.

Iceland's international investment position was negative by 2,095 b.kr. at the end of Q2/2008, having deteriorated by 27 b.kr. during the quarter. A review of the net IIP at year-end 2007 resulted in an improvement of 196 b.kr.

Although submittal of reports from parties that are required to inform the Bank of foreign transactions has improved recently, some reports are still submitted late. This obstructs the compilation of accurate

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

statistics on balance of payments and international investment position and compromises the precision and informational value of the accounts. The Central Bank encourages those who are required to submit reports on their foreign funding activity and their asset and liability position to do so in a timely manner.

Table 1: Quarterly balance of payments in billions of krónur, at the price level of the relevant period

	<i>2007:2</i>	<i>2007:3</i>	<i>2007:4</i>	<i>2008:1</i>	<i>2008:2</i>
Current Account	-48.5	-29.1	-90.6	-57.4	-128.1
Exports of goods and services	106.1	105.9	128.3	111.7	173.7
Imports of goods and services	-146.8	-143.0	-159.4	-147.4	-183.2
Income and current transfer, net	-7.8	8.1	-59.6	-21.6	-118.6
Capital and Financial Account	116.9	62.2	101.1	133.2	-55.5
Financial account excl. reserves	115.0	68.9	104.6	140.2	-77.7
Foreign assets	-643.6	-483.2	-570.5	163.0	-385.3
Foreign debt	758.6	552.1	675.1	-22.8	307.6
Reserve assets (- increase)	2.5	-6.2	-3.1	-6.5	22.6
Net errors and omissions	-68.3	-33.2	-10.5	-75.8	183.6

Table 2: International investment position at the end of the quarter in billions of krónur, at the price level of the relevant period

	<i>2007:2</i>	<i>2007:3</i>	<i>2007:4</i>	<i>2008:1</i>	<i>2008:2</i>
Foreign assets, total	5,291	5,911	6,650	7,810	8,429
Outward foreign direct investment	1,265	1,333	1,742	1,756	1,878
Foreign marketable securities	1,618	1,926	1,672	2,042	2,106
Financial assets excl. reserves	2,264	2,497	3,074	3,792	4,242
Foreign reserves	144	155	163	220	203
Foreign liabilities, total	6,624	7,264	8,037	9,878	10,524
Inward foreign direct investment	666	681	740	840	887
Domestic marketable securities	3,765	3,720	3,694	4,462	4,801
Other foreign debt	2,193	2,863	3,603	4,577	4,836
Net international investment position	-1,333	-1,353	-1,388	-2,068	-2,095

Further information can be obtained from Tómas Örn Kristinsson, Director of the Statistics and IT Department of the Central Bank, at tel: +354 569-9600.