

Balance of payments in the third quarter of 2008 and the external position

The Central Bank of Iceland has published on its website the preliminary statistics for the balance of payments in the third quarter of 2008, and for the external position at the end of the quarter.¹

The deficit on the current account was 109.6 b.kr. in the third quarter of the year, which is considerably lower than in the previous quarter. To a large degree, the change can be traced to the smaller deficit on the income and service accounts, which is offset somewhat by the wider merchandise account deficit. The loss on residents' outward foreign direct investment (reinvestment of profit/loss) was smaller; however, interest expense due to external debt has increased.

Net financial inflow totalled 166.8 b.kr. during the period. Residents' outward foreign direct investment increased by 49 b.kr., while non-residents' inward foreign direct investment contracted by 18.8 b.kr. There was also a considerable contraction in non-residents' portfolio investment in Iceland. Net financial inflow is derived from resident investors' sales of foreign debt instruments and foreign borrowings by the public sector.

The errors and omissions item in the quarterly accounts is rather large, and a review of the financial account for the previous quarters of 2008 resulted in little change to errors and omissions for the balance of payments. There remains the possibility, however, that this item will be reduced as further information is revealed during the preparation of full year balance of payments statement. The Central Bank's experience is that a negative errors and omissions item is most often explained by underestimation of the capital account, although sometimes it is also the case that more detailed information concerning transactions and their timing becomes available later.

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

Iceland's international investment position was negative by 2,302 b.kr. at the end of Q3/2008, after deteriorating by 184 b.kr. during the quarter. This is due in particular to the depreciation of the króna; i.e., the rise in the price of foreign currencies. External assets totalled 9,955 b.kr. at the end of the quarter, while external debt totalled 12,257 b.kr.

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

	2007-3	2007-4	2008-1	2008-2	2008-3
Current Account	-29.0	-90.7	-56.9	-134.6	-109.6
Exports of goods and services	105.9	128.3	111.7	173.5	175.3
Imports of goods and services	-143.0	-159.4	-147.4	-183.2	-195.2
Income and current transfer, net	8.1	-59.6	-21.2	-124.9	-89.7
Capital and Financial Account	62.7	101.5	112.5	207.3	166.8
Financial account excl. reserves	68.9	104.6	119.0	184.7	281.4
External assets, net	-483.2	-571.2	117.6	-229.6	209.7
External debt, net	552.1	675.1	1.4	414.3	71.7
Reserve assets (- increase)	-6.2	-3.1	-6.5	22.6	-114.9
<i>Net errors and omissions</i>	<i>-33.2</i>	<i>-10.5</i>	<i>-55.0</i>	<i>-72.3</i>	<i>-57.2</i>

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

	2007-3	2007-4	2008-1	2008-2	2008-3
Foreign assets, total	5,911	6,651	7,883	8,436	9,955
Outward foreign direct investment	1,333	1,742	1,756	1,899	2,476
Foreign marketable securities	1,926	1,672	2,086	2,091	2,222
Financial assets excl. reserves	2,497	3,074	3,821	4,243	4,882
Foreign reserves	155	163	220	203	375
Foreign liabilities, total	7,179	7,981	9,909	10,553	12,257
Inward foreign direct investment	681	740	840	853	869
Domestic marketable securities	3,720	3,704	4,576	4,882	5,381
Other foreign debt	2,778	3,537	4,493	4,818	6,007
Net international investment position	-1,268	-1,332	-2,026	-2,118	-2,302

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