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Balance of payments in the first quarter of 2009 and the external position

The Central Bank of Iceland has published on its website the preliminary statistics for the balance of payments in the first quarter of 2009, and for the external position at the end of the quarter.¹

The deficit on the current account totalled 49.4 b.kr. for the first quarter, which is a considerably smaller deficit than in the quarters immediately preceding. The trade account showed a surplus of over 14 b.kr.; thus the current account deficit is attributable to the 59 b.kr. deficit on the income account and the 2.6 b.kr. deficit on the services account.

The income account deficit for the first quarter is due in large part to high interest expense incurred by domestic parties abroad. The portion of this interest expense that is attributable to the old banks is unpaid and therefore does not generate capital outflows.

Payments in arrears increase short-term liabilities, as they are actually financed by owners of the debt, and are entered as capital inflows in the capital and financial account. Net capital inflows amounted to 122.8 b.kr. in the first quarter, due in part to the above-mentioned financing of arrears.

Iceland's international investment position was negative by 4,580 b.kr. at the end of Q1/2009, after improved by just over 131 b.kr. during the quarter. The quarter-on-quarter change is due primarily to a reduction in the Central Bank's short-term liabilities, although exchange rate movements also have some effect.

External assets totalled 8,479 b.kr. at the end of the quarter, while external debt totalled 13,059 b.kr. It should be noted that the external debt figures include assets and liabilities of the three commercial banks that have been granted moratoria. Financing of arrears also increases short-term liabilities.

Previous quarters have been reviewed based on the most recent information received by the Central Bank. The review has the most pronounced effect on residents' outward foreign direct investment in Q4/2008, particularly the reduction in the equity item.

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

In preparing the accounts for the quarter, a new method for evaluating revenues from direct investment was employed. Instead of measuring capital gain and loss, only the operating gain and loss for the operations concern are measured. The changes are in accordance with international standards followed by most OECD nations.

As of the first quarter of 2009, the services account balance is prepared by Statistics Iceland. Data compilation methods have been changed concurrent with the transfer to Statistics Iceland; therefore, the figures are not fully comparable between periods. Statistics Iceland bases its data compilation entirely on data from firms, while the Central Bank uses a mixed method in its accounting related to cross-border services transactions. Data were obtained from the largest firms, while transactions were estimated for small and medium-sized companies based on their foreign exchange transactions in Icelandic banks.

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

	2008 /1	2008 /2	2008 /3	2008 /4	2009 /1
Current account	-59.6	-140.5	-114.3	-311.1	-49.4
Exports of goods and services	110.7	172.2	172.8	194.1	153.9
Imports of goods and services	-147.8	-183.6	-193.9	-160.6	-142.0
Income and transfer, net	-22.6	-129.0	-93.1	-344.6	-61.4
Capital and financial account	247.2	107.6	136.0	549.7	122.8
Financial account excl. reserves	254.2	85.3	250.6	552.0	76.7
Foreign assets, net	283.9	-357.1	208.7	616.7	83.7
Foreign liabilities, net	-29.7	442.4	41.9	-64.6	-7.0
Reserve assets	-6.5	22.6	-114.9	-1.9	46.5
Net errors and omissions	-187.6	32.9	-21.7	-238.6	-73.4

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

	2008 /1	2008 /2	2008 /3	2008 /4	2009 /1
Total assets	7,883	8,447	9,956	8,988	8,479
Direct investment abroad	1,756	1,910	2,476	1,417	1,274
Portfolio assets	2,086	2,091	2,222	2,331	2,033
Other investment, net	3,821	4,243	4,882	4,733	4,715
Reserves	220	203	375	431	384
Total liabilities	9,920	10,547	12,314	13,700	13,059
Direct investment in Iceland	839	887	869	578	452
Portfolio liabilities	4,588	4,839	5,432	6,028	5,995
Other investment, liabilities	4,493	4,821	6,012	7,018	6,539
International investment position	-2,037	-2,101	-2,358	-4,711	-4,580

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