

The Central Bank recently changed its methodology for measuring revenues from foreign direct investment for its balance of payments calculations. This change involved a review of data extending back to 2006, which had a significant effect on the balance on income in 2006-2008, and therefore on the current account balance during that period.

According to standard international methodology, there are two ways to measure revenues from foreign direct investment: by measuring the operating performance of a company, on the one hand, and by measuring its overall performance, on the other. The former method focuses only on profit or loss related to the operation of the company's regular activities and does not take into account capital gains and losses, such as changes in asset values or exchange rate fluctuations. The latter method takes into account all factors, including revenues and expenses due to value changes or exchange rate movements.

Although the latter method gives a more accurate view of the value of a company on a given day, asset prices can often be difficult to determine. For this reason, current standards for preparing national accounts recommend the former method. In recent years, international organisations such as the IMF and the OECD have recommended the former method of evaluating foreign direct investment for national accounts, and this is the method used by most countries within the OECD.<sup>1</sup>

Until 2009, the Central Bank used the latter method. The Bank had planned for some time to change its methodology, but a number of factors prevented it, including difficulty in obtaining the necessary data from companies. Since the beginning of 2009, however, the Bank has used the new method. This change means that foreign direct investment statistics are now more comparable with those for Iceland's main trading partners than they were previously.

1. For further information, see the manuals published by the IMF and the OECD; for example, *Balance of Payments and International Investment Position Manual*, Paragraphs 11.43-11.46, and the *OECD Benchmark Definition of Foreign Direct Investment*, Annex VI.

## Box VII-1

### New method for estimating foreign direct investment