

Balance of payments in the third quarter of 2011 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 2011, and for the external position at the end of the quarter.¹

The current account balance was positive by 11.7 b.kr. in the third quarter, as opposed to a negative balance of 32.1 b.kr. in the preceding quarter. The goods account showed a surplus of 33.5 b.kr., and the services account was positive by 27.3 b.kr. The balance on income, however, was negative by 47.6 b.kr.

As before, the deficit in the balance on income during the quarter can be attributed to deposit institutions in winding-up proceedings. Expenditures due to these institutions totalled 44.4 b.kr., while revenues were 17 b.kr. Therefore, the balance on income excluding deposit institutions in winding-up proceedings was negative by 21.6 b.kr., and the current account balance was positive in the amount of 39.1 b.kr.

External assets totalled 4,529 b.kr. at the end of the quarter, while external liabilities totalled 13,671 b.kr. Thus the net external position was negative by 9,142 b.kr., and net liabilities declined by 361 b.kr. quarter-on-quarter. Excluding the deposit institutions undergoing winding-up proceedings, assets totalled 2,529 b.kr. and liabilities 3,361 b.kr., yielding a net balance of -833 b.kr.

Revision of balance on income presentation

The presentation of interest income and expense of companies in direct investment has been reviewed. There is no effect on the balance on income, merely a shift between income and expense. The previous presentation was not fully consistent with the methodology² agreed upon by IMF member countries.

Previously income and expense due to lending between domestic investors and foreign companies owned by them were netted out and entered on the income side in the balance on income. Similarly, income and expense due to lending between foreign investors and domestic companies owned by them were netted out and entered on

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

² See *Balance of Payments Manual*.
<http://www.imf.org/external/np/sta/bop/bopman.pdf>

the expense side in the balance on income. Thus ownership determined on which side of the balance on income the income and expenses appeared.

According to the current presentation, income from domestic companies loans to foreign ones is entered on the income side, and expense from loans by foreign companies to domestic ones is entered on the expense side. Ownership makes no impact on this presentation.

According to the previous presentation, income could be recorded as negative if a foreign company held by domestic owners had more income from loans to its owners than the owners had from their loans to that company. Similarly, expense could be positive if a domestic company owned by foreign parties had more income from loans to the owners than the owners had from loans to the company.

Income was negative in the balance on income from Q1/2008 onwards. The current review extends back to that time. The effect in previous years was negligible.

Foreign direct investment

The increase in foreign shareholdings from Q4/2009 onwards is due to a revision of figures from deposit institutions in winding-up proceedings.

The revised figures on foreign direct investment for 2010, classified by country and sector, will be published on 8 December 2011.³

	<u>2010, III</u>	<u>2010, IV</u>	<u>2011, I</u>	<u>2011, II</u>	<u>2011, III</u>
Total assets	4.116	4.182	4.420	4.562	4.529
Direct investment abroad	1.195	1.368	1.386	1.380	1.332
Portfolio assets	938	818	867	996	1.007
Other investment, net	1.496	1.332	1.402	1.358	1.278
Reserves	487	665	764	828	912
Total liabilities	13.595	13.769	14.256	14.064	13.671
Direct investment in Iceland	1.053	1.356	1.445	1.494	1.492
Portfolio liabilities	3.497	3.176	3.096	2.970	2.698
Other investment, liabilities	9.045	9.237	9.715	9.600	9.481
International investment position	-9.479	-9.586	-9.836	-9.503	-9.142
<i>Memorandum items:</i>					
IIP excl. DMBs undergoing winding up proceedings	-1.034	-846	-868	-799	-833

³ See <http://www.sedlabanki.is/?PageID=291>

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