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Current account deficit 44.2 b.kr. in Q4/2021 – net IIP positive by 40.2% of GDP

The current account deficit measured 44.2 b.kr. in Q4/2021. This represents a deterioration of 61.2 b.kr. relative to the previous quarter and 67,6 b.kr. relative to Q4/2020. The deficit on goods trade totalled 38.7 b.kr., while the surplus on services trade totalled 20.1 b.kr. The deficit on primary income was 15.5 b.kr., and the deficit on secondary income was 10.1 b.kr. (Table 1).

This is included in new information published on the Central Bank of Iceland website, showing the preliminary balance of payments in Q4/2021 and the external position of the economy at the end of the quarter.¹

Table 1. Balance of payments (b.kr.)

	<u>2020/4</u>	<u>2021/1</u>	<u>2021/2</u>	<u>2021/3</u>	<u>2021/4</u>
Current account balance	23.5	-23.8	-39.2	17.0	-44.2
Balance on goods	-15.5	-21.0	-56.3	-47.7	-38.7
Balance on services	26.0	-8.3	22.6	60.4	20.1
Balance on primary income	21.5	13.0	2.1	12.0	-15.5
Secondary income, net	-8.5	-7.6	-7.6	-7.7	-10.1
Capital account	-0.9	-0.7	-0.8	-0.5	-0.9
Financial account	-1.5	9.6	-1.2	90.3	-50.8
Direct investment	-5.5	31.9	16.0	-15.8	-51.8
Portfolio investment	49.8	-131.9	30.1	79.7	36.2
Derivatives	-0.8	-0.9	2.6	4.4	4.8
Other investments	7.2	31.4	-63.2	-32.6	-38.0
International reserves	-52.2	79.0	13.4	54.7	-1.9
Net errors and omissions	-24.0	34.1	38.7	73.8	-5.7

The erosion in the current account balance relative to the same quarter in 2020 is due mainly to a deterioration in primary income in the amount of 27.63 b.kr. For the first time since Q2/2015, the secondary income account showed a deficit. This is due mainly to improved performance among foreign-owned companies classified as direct investment.² Furthermore, the balance on goods trade was weaker by 23.2 b.kr. owing mainly to strong imports. The balance on services was weaker by 5.9

¹ [Tables on Iceland's balance of payments and international investment position can be found on the Statistics pages of the Central Bank website: https://www.cb.is/statistics/.](https://www.cb.is/statistics/)

² A positive performance by foreign-owned firms in Iceland is recognised as expenses in the current account balance.

b.kr.³ The deficit on secondary income was 1.6 b.kr. larger than in the same quarter of 2020.

The current account balance for 2021 as a whole showed a deficit of 90.2, b.kr. as compared with a surplus of 24.1 b.kr. in 2020. The deficit on goods trade totalled 163.7 b.kr., while the surplus on services trade totalled 94.8 b.kr. The surplus on primary income amounted to 11.6 b.kr., whereas there was a 33 b.kr. deficit on secondary income.

At the end of Q4, the net international investment position was positive by 1.299 b.kr., or 40.2% of GDP, and improved by 45 b.kr., or 1.4% of GDP, during the quarter. Foreign assets totalled 5,099 b.kr. at the end of the quarter, while foreign liabilities totalled 3,801 b.kr. During the quarter, the position declined by 51 b.kr. as a result of financial transactions, while foreign assets increased by 18 b.kr. due to financial transactions, and foreign liabilities increased by 70 b.kr. Asset values rose by 123 b.kr. during the quarter, owing to price and exchange rate movements, whereas liabilities declined by 27 b.kr. Price and exchange rate movements therefore improved the net external position by 150 b.kr. Prices in foreign securities markets rose by nearly 7% between quarters, and prices in the domestic stock market rose by 2%. The króna appreciated by 1.1% in terms of the trade-weighted index.

Table 2. Quarter-on-quarter change in international investment position (b.kr.)

	Position at end-Q3/2021	Financial account	Exchange rate and price changes	Other changes	Position at end-Q4/2021
Foreign assets, total	4,952	18	123	7	5,099
Direct investment	797	5	-1	7	808
Portfolio investment	2,611	65	135	0	2,811
Derivatives*	8	-9	7	0	7
Other investments	597	-42	-5	0	550
International reserves	939	-2	-14	0	923
Foreign liabilities, total	3,698	70	-27	60	3,801
Direct investment	1,044	57	-2	49	1,148
Portfolio investment	1,655	29	-31	-2	1,650
Derivatives*	17	-12	11	0	16
Other investments	983	-4	-5	13	987
Net international investment position (NIIP)	1,254	-51	150	-53	1,299
% of GDP	38.8%	-1.6%	4.6%	-1.6%	40.2%

*Other changes are included under price and exchange rate changes for derivatives.

³See the [Statistics Iceland website](#).