

Balance of payments in the first quarter of 2007 and the external position

The Central Bank of Iceland will today publish on its website preliminary statistics for the balance of payments in the first quarter of 2007, and for the external position at the end of March.¹

The deficit on the current account was 28 b.kr. in Q1/2007, which is only half that in the corresponding quarter a year before (57.3 b.kr.). A deficit was shown on all current accounts: goods, services, income and current transfer. The deficit on the goods account was 8.1 b.kr., compared with 31.9 b.kr. in Q1/2006. Specific factors explain part of the narrowing of the current account deficit in Q1/2007, such as aircraft sales and profits on foreign investment. The turnaround in the balance on income reflects residents' shares in profits on direct foreign investment abroad, which are measured as income and are reinvested at the same time in the companies. A slight increase was shown on the expenditure side of the income account, which is likewise explained by reinvested profit on direct foreign investment in Iceland. However, little new inward investment was made in Iceland during the quarter.

Net financial outflow measured 88.3 b.kr. over Q1/2007. Foreign direct and bond portfolio investment by residents grew considerably from Q4/2006. On the other hand, foreign direct investment in Iceland by non-residents contracted, as did their portfolio investment in marketable securities.

Balance of payments in b.kr.

	<i>January - March</i>	
	<i>2006</i>	<i>2007</i>
Current Account	-57.3	-28.1
Exports of goods and services	77.2	108.5
Imports of goods and services	-122.8	-128.1
Income and current transfer, net	-11.7	-8.5
Capital and Financial Account	216.6	-88.3
Financial account excl. reserves	219.8	-87.3
External assets, net	-357.8	-585.2
External debt, net	577.6	497.9
Reserve assets (- increase)	-3.7	0.1
<i>Net errors and omissions</i>	<i>-158.2</i>	<i>116.3</i>

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

The large errors and omissions item in the balance of payments in Q1/2007 is expected to decrease as more complete data become available. One explanation is known to be that accrued interest is included in the balance on income but no adjustment is made for the difference between accrued and paid interest in the financial account. However, the main explanation is that data on the timing of underlying payment flows for merchandise trade and capital movements are as yet incomplete.

Iceland's international investment position was negative by 1,283 b.kr. at the end of Q1/2007, having improved by 114 b.kr. over the quarter. This improvement was largely driven by an appreciation of the króna, which measured 7.8% on the exchange rate index. Foreign assets amounted to 4,787 b.kr. and foreign liabilities to 6,069 b.kr. at the end of Q1/2007.

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