

Balance of payments in the third 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 third quarter of 2009, and for the external position at the end of the quarter.¹

The deficit on the current account totalled 36 b.kr. for Q3, which is roughly 29 b.kr. smaller than in preceding quarters. The merchandise account showed a surplus of 16 b.kr., and the service account was positive by 20.8 b.kr. The balance on income, however, was negative by 73 b.kr.

As before, the income account deficit in Q3 is attributable primarily to deposit institutions undergoing winding-up proceedings, as the account reflects accrued interest that does not represent actual payment flows out of Iceland. Expenditures due to deposit institutions in winding-up proceedings totalled 51 b.kr., while revenues were 24.6 b.kr.; therefore, the impact on the balance on income was negative in the amount of 26.5 b.kr. Therefore, the balance on income excluding deposit institutions in winding-up proceedings was negative by 46.5 b.kr., and the current account balance was negative in the amount of 9.5 b.kr. Interest expense due to shareholder loans, which has increased steadily over the past two years, also had a substantial negative effect on the balance on income.

External assets totalled 8,930 b.kr. at the end of the quarter, while external debt totalled 14,669 b.kr. The net external position was therefore negative by 5,739 b.kr., and net liabilities therefore declined by nearly 90 b.kr. quarter-on-quarter. Figures on external liabilities include the assets and liabilities of the deposit institutions being wound up.

Changes have been made in the presentation of these assets and liabilities in the summary of external liabilities and the external position of the economy. They are no longer included with the deposit institutions; instead, they are presented in a new item entitled "Deposit institutions undergoing winding-up proceedings," which can be found under the item "Other sectors." The time series for this new item begins with the fourth quarter of 2008. Only banks and savings banks currently operating as deposit institutions are now included under an eponymous item from the same time.

The external position of the economy excluding the assets and liabilities of deposit institutions undergoing winding-up proceedings was negative in the amount of 524 b.kr. at the end of the quarter. Assets totalled 2,612 b.kr., and liabilities were 3,137 b.kr.

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

It should be noted that resident investors' foreign securities holdings have been revaluated based on the results of an annual survey of cross-border securities investments. The survey is carried out by Central Bank of Iceland staff on behalf of the International Monetary Fund (IMF). The survey results will be published on the IMF website in January 2010. (See <http://www.imf.org/external/np/sta/pi/global.htm>).

Furthermore, non-residents' holdings in bonds issued in Iceland have been revaluated based on the most recent figures from domestic securities depository agents. The revaluation extends back in time to the first quarter of 2008. Non-residents holdings in these securities are considerably smaller than previously estimated.

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

| | 2008 /3 | 2008 /4 | 2009 /1 | 2009 /2 | 2009 /3 |
|--------------------------------------|---------|---------|---------|---------|---------|
| <i>Current account</i> | -123,0 | -310,0 | -75,3 | -65,3 | -36,0 |
| Exports of goods and services | 175,4 | 191,7 | 150,5 | 183,3 | 221,7 |
| Imports of goods and services | -194,0 | -162,0 | -140,3 | -156,1 | -184,6 |
| Income and transfer, net | -104,3 | -339,7 | -85,4 | -92,6 | -73,1 |
| <i>Capital and financial account</i> | 55,4 | 637,6 | 69,1 | 123,5 | -75,1 |
| Financial account excl. reserves | 170,0 | 640,0 | 23,0 | 123,8 | -26,2 |
| Foreign assets, net | 232,8 | 693,3 | -8,3 | 110,9 | -78,1 |
| Foreign liabilities, net | -62,8 | -53,3 | 31,3 | 12,9 | 50,8 |
| Reserve assets | -114,9 | -1,9 | 46,5 | 0,0 | -48,5 |
| <i>Net errors and omissions</i> | 67,6 | -327,6 | 6,2 | -58,2 | 111,1 |

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

| | 2008 /3 | 2008 /4 | 2009 /1 | 2009 /2 | 2009 /3 |
|--|---------|---------|---------|---------|---------|
| <i>Total assets</i> | 9.819 | 9.099 | 8.125 | 8.915 | 8.930 |
| Direct investment abroad | 2.242 | 1.096 | 968 | 955 | 888 |
| Portfolio assets | 2.320 | 2.355 | 1.763 | 2.003 | 2.074 |
| Other investment, net | 4.882 | 5.141 | 4.936 | 5.491 | 5.479 |
| Reserves | 375 | 431 | 384 | 386 | 435 |
| <i>Total liabilities</i> | 12.700 | 13.941 | 13.541 | 14.741 | 14.669 |
| Direct investment in Iceland | 1.438 | 1.082 | 998 | 1.091 | 1.057 |
| Portfolio liabilities | 5.351 | 6.070 | 5.515 | 5.578 | 5.427 |
| Other investment, liabilities | 5.910 | 6.712 | 6.955 | 7.990 | 8.128 |
| <i>International investment position</i> | -2.880 | -4.842 | -5.416 | -5.826 | -5.739 |

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