

## Balance of payments in the third quarter of 2010 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 2010, and for the external position at the end of the quarter.<sup>1</sup>

The current account balance was positive by 23.8 b.kr. in the third quarter, as opposed to a negative balance of over 44 b.kr. in the preceding quarter. The goods account showed a surplus of 21.8 b.kr., and the services account was positive by 35.3 b.kr. The balance on income, however, was negative by 33.3 b.kr.

As before, the deficit in the balance on income during the quarter can be attributed to financial institutions in winding-up proceedings. Calculated expenditures due to these institutions totalled 38.8 b.kr., while revenues were 1 b.kr. Therefore, the balance on income excluding deposit institutions undergoing winding-up proceedings was positive by 4.5 b.kr., and the current account balance was positive in the amount of 61.7 b.kr.

External assets totalled 3,911 b.kr. at the end of the quarter, while external debt totalled 13,208 b.kr. Thus the net external position was negative by 9,297 b.kr., and net liabilities declined by nearly 558 b.kr. quarter-on-quarter. Excluding the financial institutions undergoing winding-up proceedings, assets totalled 2,580 b.kr. and liabilities 2,947 b.kr., net external position was therefore negative by 368 b.kr.

### **Revised assessment of assets of financial institutions in winding-up proceedings**

For the first time since the banks collapsed, the Central Bank has now received reliable data on the foreign assets of the financial institutions in winding-up proceedings. As could be expected, these financial institutions' assets were far less than previously estimated. In comparison with previously published figures, this change considerably erodes the external position of the economy including the financial institutions being wound up. However, it has no impact on the external position excluding financial institutions undergoing winding-up proceedings, which has continued to improve in recent quarters.

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

The revision also affects factor income, and the balance on income (and therefore the current account balance) is poorer than previous measurements indicate. The revision has no effect on the current account balance, excluding financial institutions undergoing winding-up proceedings.

### **Foreign securities holdings**

Resident investors' foreign securities holdings have been revaluated based on the results of an annual survey of cross-border securities investments, the Coordinated Portfolio Investment Survey, carried out by Central Bank of Iceland staff on behalf of the International Monetary Fund (IMF). It was conducted in over 70 countries, and the results have been published on the Fund's website: <http://www.imf.org/external/np/sta/pi/global.htm>.

### **Foreign direct investment**

Outward foreign direct investment by Icelanders has been revised from Q4/2009 to Q2/2010, and foreign investment holdings during the period under scrutiny were larger than previously estimated, due primarily to takeovers of foreign companies because of credit claims owned by financial institutions in winding-up proceedings.

The geographic and sectoral distribution of direct investment (annual figures) will be published on 9. December 2010. (See <http://www.sedlabanki.is/?PageID=291>).

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

	<u>2009 /3</u>	<u>2009 /4</u>	<u>2010 /1</u>	<u>2010 /2</u>	<u>2010 /3</u>
<b>Current account</b>	<b>-47,1</b>	<b>-17,3</b>	<b>0,6</b>	<b>-44,5</b>	<b>23,8</b>
Exports of goods and services	232,3	204,3	194,6	221,2	232,8
Imports of goods and services	-180,3	-173,0	-163,5	-171,6	-175,7
Income and transfer, net	-99,0	-48,6	-30,5	-94,1	-33,4
<b>Capital and financial account</b>	<b>5,1</b>	<b>-330,2</b>	<b>99,0</b>	<b>60,1</b>	<b>-13,8</b>
Financial account excl. reserves	53,9	-279,2	115,4	161,2	-62,7
Foreign assets, net	-5,4	-274,8	-88,3	53,4	-65,9
Foreign liabilities, net	84,6	53,3	203,7	107,8	3,2
Reserve assets	-48,5	-50,6	-16,2	-101,0	49,0
<b>Net errors and omissions</b>	<b>42,0</b>	<b>347,6</b>	<b>-99,5</b>	<b>-15,6</b>	<b>-10,0</b>

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

	<u>2009 /3</u>	<u>2009 /4</u>	<u>2010 /1</u>	<u>2010 /2</u>	<u>2010 /3</u>
<b>Total assets</b>	<b>4.006</b>	<b>4.259</b>	<b>4.138</b>	<b>4.088</b>	<b>3.911</b>
Direct investment abroad	890	1.158	959	1.041	975
Portfolio assets	1.007	929	925	843	836
Other investment, net	1.674	1.688	1.764	1.642	1.612
Reserves	435	485	490	562	487
<b>Total liabilities</b>	<b>14.726</b>	<b>14.640</b>	<b>14.381</b>	<b>13.943</b>	<b>13.208</b>
Direct investment in Iceland	1.057	1.079	1.051	985	936
Portfolio liabilities	5.427	4.965	4.519	3.887	3.568
Other investment, liabilities	8.242	8.597	8.811	9.071	8.703
<b>International investment position</b>	<b>-10.721</b>	<b>-10.382</b>	<b>-10.243</b>	<b>-9.855</b>	<b>-9.297</b>

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