

## Balance of payments and the external position in the second quarter of 2004

The deficit on Iceland's current account in the second quarter of 2004 amounted to 16.7 billion kr. according to preliminary figures from the Central Bank. In the second quarter of 2003 the current account deficit was 14.5 b.kr. The current account deficit in the first half of 2004 (H1/2004) was 27.8 b.kr., compared with just over **14.3 b.kr. (correction)** in the corresponding period the previous year. Measured at fixed exchange rates<sup>1</sup>, exports of goods and services increased year-on-year by 7.1% during H1/2004 while imports increased by 17.7%. The deficit on income and current transfer, net was 4.9 b.kr. in the first half of 2004, compared with 7.4 b.kr. in the same period the preceding year.

### *Balance of payments in b.kr.*

	<i>April- June</i>		<i>January- June</i>	
	<i>2003</i>	<i>2004</i>	<i>2003</i>	<i>2004</i>
<b>Current Account</b>	<b>-14.5</b>	<b>-16.7</b>	<b>-14.3</b>	<b>-27.8</b>
Exports of goods and services	67.6	76.5	138.8	149.0
Imports of goods and services	-78.3	-94.5	-145.6	-172.0
Income and current transfer, net	-3.8	1.4	-7.4	-4.9
<b>Capital and Financial Account</b>	<b>11.0</b>	<b>15.5</b>	<b>12.8</b>	<b>29.1</b>
Financial account excl. reserves	11.1	18.7	13.9	39.8
External assets, net	-56.8	-101.3	-77.5	-168.8
External debt, net	68.0	120.0	90.6	208.6
Reserve assets (- increase)	0.0	-3.0	-0.2	-10.5
<i>Net errors and omissions</i>	<i>3.5</i>	<i>1.2</i>	<i>1.5</i>	<i>-1.2</i>

Capital inflow measured 29.1 b.kr. in H1/2004, largely explained by Icelandic debt instrument issues abroad. Foreign portfolio investment in Iceland dropped significantly with net redemptions of 10 b.kr. in H1/2004. First-half capital outflows in connection with portfolio investment abroad amounted to 33.6 b.kr. and foreign direct investment by residents to 40.2 b.kr. Other investment outflows were also heavy, in particular foreign lending by Icelandic banks. The Central Bank's foreign reserves amounted to 68.5 b.kr. at the end of June 2004 and had risen by 10.5 b.kr. since the beginning of the year.

<sup>1</sup> The trade-weighted exchange rate index was 0.3% higher in the first half of 2004 than in the corresponding period a year before.

Iceland's net international investment position was negative by 596.6 b.kr. at the end of June, 46.5 b.kr. more than at the beginning of the year. The higher negative investment position can be attributed to funding of the current account deficit as well as price and exchange rate movements. Detailed information on the balance of payments and the external position is presented in the attached tables, along with revised figures for the period 2001-2003 in which direct investment and returns on it have been adjusted in light of late data collection.

On Monday September 6, 2004, the Central Bank will publish tables showing the balance of payments and external position on the Statistics page of its website ([www.sedlabanki.is](http://www.sedlabanki.is)). A table showing Iceland's gross external debt will also be published in accordance with the IMF's Special Data Dissemination Standard.

For further information contact Jakob Gunnarsson, Division Chief at the Statistics Department of the Central Bank of Iceland, tel. (+354) 569-9600.

## BALANCE OF PAYMENTS

<i>m.kr.</i>	April - June		January - June		<i>Change<sup>1</sup> on prev. year</i>
	2003	2004	2003	2004	
<b>Current Account</b>	<b>-14,469</b>	<b>-16,662</b>	<b>-14,321</b>	<b>-27,847</b>	
Exports of goods and services	67,615	76,465	138,758	149,039	7.1%
Imports of goods and services	-78,305	-94,520	-145,642	-171,953	17.7%
Balance on income and current transfer, net	-3,779	1,393	-7,437	-4,933	-33.9%
<b>Balance on Goods</b>	<b>-7,023</b>	<b>-13,536</b>	<b>-355</b>	<b>-13,269</b>	
Merchandise exports f.o.b.	43,442	48,000	92,655	98,893	6.4%
Merchandise imports f.o.b.	-50,465	-61,536	-93,010	-112,162	20.2%
<b>Balance on Services</b>	<b>-3,667</b>	<b>-4,519</b>	<b>-6,529</b>	<b>-9,645</b>	
Exports of services, total	24,173	28,465	46,103	50,146	8.5%
Transportation	12,319	16,455	22,959	28,993	25.9%
Travel	5,427	6,020	8,442	9,395	11.0%
Other receipts	6,427	5,990	14,702	11,758	-20.3%
Imports of services, total	-27,840	-32,984	-52,632	-59,791	13.3%
Transportation	-9,121	-12,249	-18,402	-22,752	23.3%
Travel	-9,857	-12,501	-17,165	-21,650	25.8%
Other expenditures	-8,862	-8,234	-17,065	-15,389	-10.1%
<b>Balance on Income, net</b>	<b>-3,512</b>	<b>1,717</b>	<b>-6,761</b>	<b>-4,352</b>	
Receipts	6,150	12,464	12,520	17,511	39.5%
Compensation of employees	1,478	1,231	3,007	2,765	-8.3%
Interest and investment income received <sup>2</sup>	4,672	11,233	9,513	14,746	54.6%
Expenditures	-9,662	-10,747	-19,281	-21,863	13.1%
Compensation of employees	-139	-164	-277	-393	41.5%
Interest and investment income paid <sup>2</sup>	-9,523	-10,583	-19,004	-21,470	12.6%
<b>Current transfer</b>	<b>-267</b>	<b>-324</b>	<b>-676</b>	<b>-581</b>	
<b>Capital and Financial Account</b>	<b>10,978</b>	<b>15,472</b>	<b>12,818</b>	<b>29,066</b>	
Capital transfer, net	-84	-301	-33	-292	
Financial account <sup>3</sup>	11,062	15,773	12,851	29,358	
<b>Financial Account excl. reserves</b>	<b>11,072</b>	<b>18,729</b>	<b>13,086</b>	<b>39,826</b>	
Direct investment, net	-16,779	-20,932	-14,194	-33,104	
Abroad	-9,147	-21,628	-14,245	-40,224	
In Iceland	-7,632	696	51	7,120	
Portfolio investment, net	71,691	67,290	86,240	165,503	
Assets	-6,247	-8,774	-14,054	-33,550	
Equities	-4,834	-7,391	-12,015	-31,327	
Debt securities	-1,413	-1,383	-2,039	-2,223	
Liabilities	77,938	76,064	100,294	199,053	
Equities	-1,837	-982	-4,292	-1,457	
Debt securities	79,775	77,046	104,586	200,510	
Other investment, net	-43,840	-27,629	-58,960	-92,573	
Assets	-41,508	-70,875	-49,185	-94,954	
Liabilities	-2,332	43,246	-9,775	2,381	
<b>Reserve assets</b>	<b>-10</b>	<b>-2,956</b>	<b>-235</b>	<b>-10,468</b>	
Net errors and omissions	3,491	1,190	1,503	-1,219	
<i>Exchange rate index (1994 = 100)</i>	<i>102.6</i>	<i>105.0</i>	<i>103.5</i>	<i>103.8</i>	<i>0.3%</i>

1) Calculated at fixed prices based on the average exchange rate index of the króna.

2) Dividends and reinvested earnings.

3) Negative number represents capital outflow due to increase in assets or decrease in liabilities.

## EXTERNAL POSITION

<i>End of period in b.kr.:</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>March * 2004</i>	<i>June * 2004</i>
<b>I. Total assets</b>	<b>421.5</b>	<b>409.1</b>	<b>676.8</b>	<b>747.2</b>	<b>841.7</b>
1 Direct investment abroad	86.8	101.2	118.7	127.2	146.7
11 Equity capital	66.8	82.3	107.3	106.4	122.9
12 Other capital	19.9	18.9	11.5	20.8	23.8
2 Portfolio assets	202.9	159.7	241.7	269.0	281.8
21 Equity capital	188.4	149.3	226.1	252.6	263.9
22 Debt securities	14.6	10.4	15.5	16.3	17.9
221 Bonds and notes	11.8	9.6	15.1	16.1	17.7
222 Money-market instruments	2.8	0.8	0.4	0.2	0.1
3 Financial derivatives	0.0	0.0	0.0	0.0	0.0
4 Other investment, assets	95.2	111.1	258.3	284.3	344.7
5 Reserves	36.6	37.2	58.1	66.7	68.5
<b>II. Total liabilities</b>	<b>1,009.0</b>	<b>965.7</b>	<b>1,226.9</b>	<b>1,313.5</b>	<b>1,438.3</b>
1 Direct investment in Iceland	70.8	63.3	74.9	76.5	81.7
11 Equity capital	63.4	55.9	54.9	56.2	61.0
12 Other capital	7.4	7.4	20.1	20.3	20.6
2 Portfolio liabilities	468.0	468.3	754.7	879.1	956.9
21 Equity capital	5.6	7.9	5.9	7.0	8.1
22 Debt securities	462.4	460.4	748.8	872.1	948.8
221 Bonds and notes	379.4	388.4	619.1	740.2	800.7
222 Money-market instruments	83.0	72.0	129.7	131.9	148.1
3 Financial derivatives	0.0	0.0	0.0	0.0	0.0
4 Other investment, liabilities	470.2	434.1	397.2	357.8	399.7
41 Long-term loans	377.0	296.2	251.5	234.5	248.4
42 Short-term debt	93.2	137.9	145.7	123.3	151.3
<b>International investment position</b>	<b>-587.5</b>	<b>-556.6</b>	<b>-550.1</b>	<b>-566.3</b>	<b>-596.6</b>
1. Equity capital, net	198.7	179.2	264.0	296.3	320.8
2. Net external debt position	-786.2	-735.8	-814.1	-862.6	-917.4
21 Central Bank	21.7	20.8	58.1	66.5	68.3
22 General governments	-239.6	-226.9	-218.6	-225.1	-217.1
23 Deposit Money Banks	-377.4	-368.0	-483.0	-541.3	-602.3
24 Other sectors	-191.0	-161.7	-170.6	-162.7	-166.3
<i>Exchange rate, ISK per USD</i>	<b>102.95</b>	<b>80.58</b>	<b>70.99</b>	72.16	72.49

(exchange rate figures in bold face are corrections)

### IV. External debt ratio: <sup>1</sup>

11 Intern. investment position	-75.8	-77.1	-69.3	-65.5	-69.4
12 Net external debt <sup>2</sup>	101.5	101.9	102.6	99.8	106.6
13 External debt position <sup>3</sup>	120.3	123.9	144.5	142.3	156.8
131 Of which long-term debt	97.6	94.8	109.7	112.8	122.0

\*) Preliminary figures

1) GDP is calculated at a corresponding exchange rate to that of external debt at the end of the period.

2) Net debt (liabilities less assets) excluding equities.

3) Total liabilities less equities.