

## Balance of payments in the first half of 2003 and the external position

The deficit on Iceland's current account in the first half of 2003 amounted to 17.9 billion kr. according to preliminary figures from the Central Bank. In the second quarter the current account deficit amounted to 15.2 billion kr., compared with 1.5 b.kr. at the same time in 2002. Measured at fixed exchange rates<sup>1</sup>, exports of goods and services contracted by 2.3% while imports increased by 10.2% from the same period the previous year. The combined deficit on the income account (compensation of employees, interest payments, and dividends and reinvested earnings) and current transfer was 9 b.kr. in the first half of 2003, which was somewhat less than in the same period last year.

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

<i>Quarter:</i>	<i>April-June</i>		<i>January-June</i>	
	<i>2002</i>	<i>2003</i>	<i>2002</i>	<i>2003</i>
<b>Current Account</b>	<b>-1.5</b>	<b>-15.2</b>	<b>-2.9</b>	<b>-17.9</b>
Exports of goods and services	79.3	66.4	155.7	137.0
Imports of goods and services	-75.5	-78.5	-147.0	-145.9
Income and current transfer, net	-5.2	-3.0	-11.6	-9.0
<b>Capital and Financial Account</b>	<b>11.9</b>	<b>20.3</b>	<b>27.7</b>	<b>40.5</b>
Financial account excl. reserves	14.0	20.4	30.8	40.8
Reserve assets (- increase)	-2.1	0	-3.1	-0.2
<i>Net errors and omissions</i>	<i>-10.4</i>	<i>-5.2</i>	<i>-24.8</i>	<i>-22.7</i>

Capital inflow measured 40.5 b.kr. during the first half of the year, mainly explained by foreign borrowing and bond issues outside Iceland, but there was also an inflow of 11.8 b.kr. from non-residents' purchases of bonds issued in Iceland. Capital outflows in connection with portfolio investment abroad amounted to 14.1 b.kr., which is more than double the figure for the same period the year before. Some outflow reflected direct disinvestment from Iceland. A high level of other investment was recorded in the first half of 2003, in particular in the form of foreign deposits of Icelandic banks. The Central Bank's

<sup>1</sup> The trade-weighted exchange rate index was 9.9% lower during the first half of 2003 than in the same period the previous year.

foreign reserves amounted to 36.9 b.kr. at the end of June and had changed little since the beginning of the year.

The large negative figure for errors and omissions during the first half of the year is assumed to result from lags in the reporting of capital outflows, in the form of either increased assets or decreased liabilities.

Iceland's net international investment position was negative by 572 b.kr. at the end of June and had decreased by 9.3 b.kr. since the beginning of the year due to the appreciation of the króna and an increase in the value of foreign portfolio investments. Detailed information on the balance of payments and external position is presented in the attached tables.

Today, Monday 1 September 2003, the Central Bank is publishing tables showing the balance of payments and external position on the Statistics page of its website ([www.sedlabanki.is](http://www.sedlabanki.is)).

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## BALANCE OF PAYMENTS

<i>m. kr.</i>	<u>April-</u>	<u>June</u>	<u>January-June</u>		<i>change<sup>1</sup> on</i>
	<i>2001</i>	<i>2002</i>	<i>2002</i>	<i>2003</i>	<i>prev. year</i>
<b>Current Account</b>	<b>-1,527</b>	<b>-15,180</b>	<b>-2,875</b>	<b>-17,879</b>	
Exports of goods and services	79,254	66,365	155,692	137,016	-2.3%
Imports of goods and services	-75,533	-78,532	-146,962	-145,907	10.2%
Balance on income and current transfer, net	-5,248	-3,013	-11,605	-8,988	-14.0%
<b>Balance on Goods</b>	5,230	-6,848	10,734	-119	
Merchandise exports f.o.b.	54,194	43,742	107,318	93,121	-3.7%
Merchandise imports f.o.b.	-48,964	-50,590	-96,584	-93,240	7.2%
<b>Balance on Services</b>	-1,509	-5,319	-2,004	-8,772	
Exports of services, total	25,060	22,623	48,374	43,895	0.7%
Transportation	13,003	11,305	25,160	21,869	-3.5%
Travel	5,345	5,395	8,501	8,445	10.3%
Other receipts	6,712	5,923	14,713	13,581	2.5%
Imports of services, total	-26,569	-27,942	-50,378	-52,667	16.1%
Transportation	-9,727	-9,106	-19,231	-18,405	6.2%
Travel	-8,683	-9,873	-15,269	-16,993	23.5%
Other expenditures	-8,159	-8,963	-15,878	-17,269	20.7%
<b>Balance on Income, net</b>	-5,106	-2,751	-11,075	-8,317	
Receipts	3,192	5,259	6,882	9,616	55.1%
Compensation of employees	1,130	2,572	2,530	4,101	79.9%
Dividends and reinvested earnings	1,148	1,540	2,378	3,228	50.7%
Interest payments	914	1,147	1,974	2,287	28.6%
Expenditures	-8,298	-8,010	-17,957	-17,933	10.9%
Compensation of employees	-362	-139	-463	-277	-33.6%
Dividends and reinvested earnings	-578	-353	-764	-1,685	144.8%
Interest payments	-7,358	-7,518	-16,730	-15,971	6.0%
<b>Current transfer</b>	142	-262	-530	-671	
<b>Capital and Financial Account</b>	<b>11,883</b>	<b>20,341</b>	<b>27,703</b>	<b>40,543</b>	
Capital transfer, net	-5	-84	-29	-33	
Financial account <sup>2</sup>	11,888	20,425	27,732	40,576	
<b>Financial Account excl. reserves</b>	<b>14,034</b>	<b>20,435</b>	<b>30,812</b>	<b>40,811</b>	
Direct investment, net	1,124	-9,660	5,161	-1,563	
Abroad	-5,055	-452	-5,691	-155	
In Iceland	6,179	-9,208	10,852	-1,408	
Portfolio investment, net	33,898	64,417	27,840	53,428	
Assets	-568	-6,290	-6,692	-14,096	
Equities	-71	-4,834	-6,537	-12,015	
Debt securities	-497	-1,456	-155	-2,081	
Liabilities	34,466	70,707	34,532	67,524	
Equities	173	-1,837	-2,260	-4,292	
Debt securities	34,293	72,544	36,792	71,816	
Other investment, net	-20,988	-34,322	-2,189	-11,054	
Assets	-27,545	-42,363	-23,594	-49,548	
Liabilities	6,557	8,041	21,405	38,494	
<b>Reserve assets</b>	<b>-2,146</b>	<b>-10</b>	<b>-3,080</b>	<b>-235</b>	
Net errors and omissions	-10,356	-5,161	-24,828	-22,664	

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

2) 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>2000</i>	<i>2001</i>	<i>2002</i>	<i>March*</i> <i>2003</i>	<i>June*</i> <i>2003</i>
<b>I. Total assets</b>	<b>315.8</b>	<b>421.1</b>	<b>405.4</b>	<b>406.4</b>	<b>484.0</b>
1 Direct investment abroad	56.2	86.7	86.4	86.9	86.7
11 Equity capital	41.0	66.6	69.8	70.4	72.7
12 Other capital	15.2	20.2	16.7	16.5	13.9
2 Portfolio assets	186.3	202.5	169.8	168.8	201.6
21 Equity capital	179.7	188.0	151.3	149.8	181.0
22 Debt securities	6.6	14.6	18.5	19.0	20.6
221 Bonds and notes	3.6	11.8	16.1	17.2	18.5
222 Money-market instruments	3.0	2.8	2.4	1.8	2.1
3 Financial derivatives	0.0	0.0	0.0	0.0	0.0
4 Other investment, assets	39.1	95.2	112.0	114.7	158.9
5 Reserves	34.2	36.6	37.2	35.9	36.9
<b>II. Total liabilities</b>	<b>763.4</b>	<b>1,007.5</b>	<b>986.8</b>	<b>984.7</b>	<b>1,056.1</b>
1 Direct investment in Iceland	41.4	67.0	69.9	76.4	44.7
11 Equity capital	33.1	63.6	66.2	72.0	41.7
12 Other capital	8.3	3.4	3.7	4.4	2.9
2 Portfolio liabilities	346.7	468.0	468.3	477.0	571.4
21 Equity capital	1.2	5.6	7.9	5.7	4.2
22 Debt securities	345.5	462.4	460.4	471.3	567.1
221 Bonds and notes	299.2	379.4	388.4	392.6	458.8
222 Money-market instruments	46.3	83.0	72.0	78.8	108.3
3 Financial derivatives	0.0	0.0	0.0	0.0	0.0
4 Other investment, liabilities	375.3	472.4	448.6	431.2	440.1
41 Long-term loans	288.1	377.0	295.4	278.9	282.8
42 Short-term debt	87.2	95.4	153.2	152.3	157.3
<b>International investment position</b>	<b>-447.6</b>	<b>-586.4</b>	<b>-581.4</b>	<b>-578.3</b>	<b>-572.1</b>
1. Equity capital, net	193.3	202.1	159.9	154.6	218.7
2. Net external debt position	-640.9	-788.5	-741.3	-732.9	-790.8
21 Central Bank	18.6	21.7	20.8	25.9	32.6
22 General governments	-167.4	-239.6	-225.4	-212.5	-217.0
23 Deposit Money Banks	-329.5	-377.4	-381.1	-396.0	-433.9
24 Other sectors	-162.6	-193.2	-155.5	-150.3	-172.5
<i>Exchange rate, ISK per USD</i>	<i>84.47</i>	<i>102.95</i>	<i>80.58</i>	<i>76.48</i>	<i>76.38</i>
<b>IV. External debt ratio: <sup>1</sup></b>					
11 Intern. investment position	-64.0	-76.0	-80.9	-72.4	-70.8
12 Net external debt <sup>2</sup>	91.6	102.1	103.2	91.7	97.8
13 External debt position <sup>3</sup>	103.1	121.1	126.5	112.9	124.6
131 Of which long-term debt	84.0	98.0	95.2	84.0	91.7

\*) 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