

Balance of payments and the external position in the third quarter of 2004

The deficit on Iceland's current account in the third quarter of 2004 amounted to 5.3 billion kr. according to preliminary figures from the Central Bank. In the third quarter of 2003 the current account deficit was 10.3 b.kr. The current account deficit in the first nine months of 2004 was 36.3 b.kr., compared with 23.8 b.kr. in the corresponding period the previous year. Measured at fixed exchange rates¹, exports of goods and services increased year-on-year by 10.5% over the first nine months of 2004, while imports increased by 16.6%. The merchandise balance deteriorated year-on-year, and so did the balance on services despite an improvement in the third quarter when exports of services increased by more than imports of services. In the first nine months of 2004, the deficit on income was 5.8 b.kr., compared with 9.3 b.kr. in the same period the preceding year. The reduced deficit on income is explained by increased investment income from abroad at the same time as interest rates in foreign credit markets remained low. Net current transfers, which largely consist of public sector contributions to international agencies and development aid, rose considerably year-on-year to 0.9 b.kr.

Balance of payments in b.kr.

	<i>July - Sept.</i>		<i>January - September</i>	
	<i>2003</i>	<i>2004</i>	<i>2003</i>	<i>2004</i>
Current Account	-10.3	-5.3	-23.8	-36.3
Exports of goods and services	80.2	91.5	219.0	240.1
Imports of goods and services	-87.4	-97.0	-233.1	-269.7
Income and current transfer, net	-3.1	0.2	-9.7	-6.7
Capital and Financial Account	4.9	6.7	25.8	51.3
Financial account excl. reserves	14.7	10.0	35.8	65.1
External assets, net	-31.1	-145.0	-99.7	-302.0
External debt, net	45.8	155.0	135.6	367.0
Reserve assets (- increase)	-9.6	-3.2	-9.8	-13.6
<i>Net errors and omissions</i>	<i>5.3</i>	<i>-1.4</i>	<i>-2.0</i>	<i>-15.0</i>

Capital movements have rarely taken place on the scale experienced in the third quarter of 2004. Net capital inflow measured 51.3 b.kr. over the first nine months, largely explained by debt securities issues

¹ The trade-weighted exchange rate index was 0.8% lower in the first nine months of 2004 than in the corresponding period a year before.

abroad. Outflows in connection with portfolio investment abroad amounted to 48.9 b.kr. and foreign direct investment by residents to 135.3 b.kr. over the first nine months. Other investment outflows were also heavy, in particular due to increased deposits and foreign lending by Icelandic banks. The Central Bank's foreign reserves amounted to 71.1 b.kr. at the end of September 2004 and had risen by 13.6 b.kr. since the beginning of the year.

Iceland's net international investment position was negative by 623.2 b.kr. at the end of September. Foreign assets of residents were close to one thousand b.kr., an increase of 280 b.kr. since the beginning of the year. This capital formation and the current account deficit were met by an increase in foreign debt: Iceland's gross external liabilities were close to 1,600 b.kr. at the end of September, or almost double GDP for the year. Detailed information on the balance of payments and the external position in 2004 is presented in the attached tables, along with revised figures for the period 2002 and 2003 in which direct investment and returns on it have been adjusted in light of late data collection.

On Monday December 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). A table showing Iceland's gross external debt will also be published in accordance with the IMF's Special Data Dissemination Standard. Other data will include the foreign position of the Central Bank and more detailed statistics for foreign travel receipts and expenditures, trade in foreign and Icelandic securities, and foreign direct investment.

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BALANCE OF PAYMENTS

<i>m.kr.</i>	July - Sept.		January - Sept.		<i>Change¹ on prev. year</i>
	2003	2004	2003	2004	
Current Account	-10,296	-5,272	-23,821	-36,308	
Exports of goods and services	80,244	91,447	219,002	240,128	10.5%
Imports of goods and services	-87,403	-96,945	-233,045	-269,734	16.6%
Balance on income and current transfer, net	-3,137	226	-9,778	-6,702	-30.9%
Balance on Goods	-10,249	-12,399	-10,604	-25,668	
Merchandise exports f.o.b.	44,498	50,064	137,153	148,957	9.4%
Merchandise imports f.o.b.	-54,747	-62,463	-147,757	-174,625	19.1%
Balance on Services	3,090	6,901	-3,439	-3,938	
Exports of services, total	35,746	41,383	81,849	91,171	12.2%
Transportation	15,774	23,748	38,733	52,296	36.1%
Travel	11,314	12,109	19,756	21,504	9.7%
Other receipts	8,658	5,526	23,360	17,371	-25.1%
Imports of services, total	-32,656	-34,482	-85,288	-95,109	12.4%
Transportation	-11,647	-13,470	-30,049	-36,884	23.7%
Travel	-12,071	-13,565	-29,236	-35,215	21.4%
Other expenditures	-8,938	-7,447	-26,003	-23,010	-10.8%
Balance on Income, net	-3,287	458	-9,252	-5,826	
Receipts	6,943	11,795	19,463	29,329	51.9%
Compensation of employees	1,649	1,434	4,656	4,199	-9.1%
Interest and investment income received ²	5,294	10,361	14,807	25,130	71.0%
Expenditures	-10,230	-11,337	-28,715	-35,155	23.4%
Compensation of employees	-83	-175	-360	-568	59.0%
Interest and investment income paid ²	-10,147	-11,162	-28,355	-34,587	22.9%
Current transfer	150	-232	-526	-876	
Capital and Financial Account	4,949	6,696	25,837	51,317	
Capital transfer, net	-177	-22	-210	-192	
Financial account ³	5,126	6,718	26,047	51,509	
Financial Account excl. reserves	14,688	9,952	35,844	65,112	
Direct investment, net	-4,076	-88,426	-10,305	-119,030	
Abroad	-6,384	-95,048	-11,909	-135,272	
In Iceland	2,308	6,622	1,604	16,242	
Portfolio investment, net	72,417	128,674	158,657	294,490	
Assets	-13,373	-14,826	-27,427	-48,923	
Equities	-11,471	-13,969	-23,486	-45,984	
Debt securities	-1,902	-857	-3,941	-2,939	
Liabilities	85,790	143,500	186,084	343,413	
Equities	453	3,556	-3,839	2,099	
Debt securities	85,337	139,944	189,923	341,314	
Other investment, net	-53,653	-30,296	-112,508	-110,348	
Assets	-11,334	-35,187	-60,414	-117,784	
Liabilities	-42,319	4,891	-52,094	7,436	
Reserve assets	-9,562	-3,234	-9,797	-13,603	
Net errors and omissions	5,347	-1,424	-2,016	-15,009	
<i>Exchange rate index (1994 = 100)</i>	<i>107.2</i>	<i>104.0</i>	<i>104.7</i>	<i>103.9</i>	<i>-0.8%</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>	2001	2002	2003	June* 2004	Sept. 2004
I. Total assets	421.5	395.6	683.7	846.0	963.4
1 Direct investment abroad	86.8	87.5	118.7	146.7	223.1
11 Equity capital	66.8	67.6	107.3	122.9	195.8
12 Other capital	19.9	19.9	11.5	23.8	27.2
2 Portfolio assets	202.9	159.7	241.7	282.4	291.2
21 Equity capital	188.4	149.3	226.1	264.6	272.6
22 Debt securities	14.6	10.4	15.5	17.7	18.6
221 Bonds and notes	11.8	9.6	15.1	17.6	18.4
222 Money-market instruments	2.8	0.8	0.4	0.1	0.2
3 Financial derivatives	0.0	0.0	0.0	0.0	0.0
4 Other investment, assets	95.2	111.2	265.2	348.5	378.0
5 Reserves	36.6	37.2	58.1	68.5	71.1
II. Total liabilities	1,009.0	966.6	1,238.0	1,443.1	1,586.6
1 Direct investment in Iceland	70.8	64.3	86.0	85.9	99.9
11 Equity capital	63.4	56.1	61.8	61.0	75.6
12 Other capital	7.4	8.2	24.3	24.8	24.3
2 Portfolio liabilities	468.0	468.3	754.7	955.9	1,093.6
21 Equity capital	5.6	7.9	5.9	8.1	10.5
22 Debt securities	462.4	460.4	748.8	947.8	1,083.1
221 Bonds and notes	379.4	388.4	619.1	796.4	925.3
222 Money-market instruments	83.0	72.0	129.7	151.4	157.8
3 Financial derivatives	0.0	0.0	0.0	0.0	0.0
4 Other investment, liabilities	470.2	434.1	397.2	401.3	393.2
41 Long-term loans	377.0	296.2	251.5	250.0	239.8
42 Short-term debt	93.2	137.9	145.7	151.3	153.4
International investment position	-587.5	-571.0	-554.3	-597.1	-623.2
1. Equity capital, net	198.7	164.6	252.9	317.3	385.3
2. Net external debt position	-786.2	-735.6	-807.2	-914.4	-1,008.5
21 Central Bank	21.7	20.8	58.1	68.3	70.7
22 General governments	-239.6	-226.9	-218.6	-215.9	-218.3
23 Deposit Money Banks	-377.4	-368.0	-476.6	-603.1	-700.9
24 Other sectors	-191.0	-161.6	-170.1	-163.8	-160.0
<i>Exchange rate, ISK per USD</i>	102.95	80.58	70.99	76.38	70.85
IV. External debt ratio: ¹					
11 Intern. investment position	-75.7	-79.0	-69.5	-67.7	-72.6
12 Net external debt ²	101.4	101.7	101.2	103.6	117.5
13 External debt position ³	120.2	123.7	143.7	152.9	172.0
131 Of which long-term debt	97.5	94.7	109.2	118.6	135.8

*) 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.