

Balance of payments in the fourth quarter of 2003 and the external position – correction to debt-to- GDP ratios

The deficit on Iceland's current account in the fourth quarter of 2003 amounted to 13.4 billion kr. according to preliminary figures from the Central Bank. In the fourth quarter of 2002 the current account deficit was 2 b.kr. The current account deficit amounted to 45.5 b.kr. over the whole of 2003, compared with a 2.2 b.kr. deficit in 2002. Measured at fixed exchange rates¹, exports of goods and services contracted by 2% while imports increased by 13.2% from the same period the previous year. The combined deficit on the income account (compensation of employees and investment income) and current transfer was 18.3 b.kr. in 2003, which was marginally greater than in the preceding year. (In the table at the end of the pdf file linked to this announcement, there is a correction to the debt-to-GDP ratios).

Balance of payments in b.kr.

	<i>October- December</i>		<i>January- December</i>	
	<i>2002</i>	<i>2003</i>	<i>2002</i>	<i>2003</i>
Current Account	-2.0	-13.4	-2.2	-45.5
Exports of goods and services	72.3	66.7	308.8	284.5
Imports of goods and services	-71.0	-78.6	-292.9	-311.6
Income and current transfer, net	-3.3	-1.5	-18.1	-18.3
Capital and Financial Account	4.3	7.7	8.8	31.8
Financial account excl. reserves	-6.7	6.1	14.6	55.6
Reserve assets (- increase)	11.0	-13.6	-5.7	-23.4
<i>Net errors and omissions</i>	<i>-2.2</i>	<i>21.1</i>	<i>-6.5</i>	<i>13.7</i>

Capital inflow measured 31.8 b.kr. in 2003. The bulk of the inflow was foreign borrowing amounting to 263 b.kr., mainly in the form of debt securities issued abroad, while foreign investors bought bonds in the domestic market for 17.7 b.kr. during the year as well. Capital outflows in connection with portfolio investment abroad amounted to 45.4 b.kr., which is considerably more than the year before. A high level of other investment was recorded in 2003, in particular in the form of foreign deposits and foreign lending by Icelandic banks.

¹ The trade-weighted exchange rate index was 6% lower in 2003 than in the year before.

Foreign direct investment by residents was 15.1 b.kr. in 2003, and foreign direct investment in Iceland 6.5 b.kr. The Central Bank's foreign reserves amounted to 58.1 b.kr. at the end of 2003 and had risen by 23.4 b.kr. during the year, of which 13.6 b.kr. took place in the fourth quarter.

Iceland's net international investment position was negative by 539 b.kr. at the end of 2003, 28 b.kr. less than at the beginning of the year despite the current account deficit. The lower negative investment position can be attributed to the appreciation of the króna and increased market value of foreign portfolio investments, and a positive figure for errors and omissions. Foreign assets amounted to 671 b.kr. at the end of 2003, having increased by 274 b.kr. during the year. Foreign liabilities grew by 246 b.kr. to 1,210 b.kr. at the end of 2003.

A large positive figure is reported for errors and omissions during 2003, after generally being negative in the preceding years. Such fluctuations reflect lags in the reporting of foreign trade and capital movements. The large positive figure in the fourth quarter is undoubtedly due to a large rise in foreign assets which was not measured until now.

Detailed information on the balance of payments and external position is presented in the attached tables. On Monday March 8, 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).

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BALANCE OF PAYMENTS

<i>m.kr.</i>	<i>October- December</i>		<i>January - December</i>		<i>change¹ on prev. year</i>
	<i>2002</i>	<i>2003</i>	<i>2002</i>	<i>2003</i>	
Current Account	-2,017	-13,368	-2,221	-45,467	
Exports of goods and services	72,279	66,722	308,802	284,457	-2.0%
Imports of goods and services	-70,996	-78,640	-292,911	-311,625	13.2%
Balance on income and current transfer, net	-3,301	-1,451	-18,114	-18,300	7.5%
Balance on Goods	2,347	-5,258	14,082	-15,901	
Merchandise exports f.o.b.	48,757	45,494	204,303	182,580	-4.9%
Merchandise imports f.o.b.	-46,410	-50,752	-190,221	-198,481	11.0%
Balance on Services	-1,063	-6,659	1,811	-11,266	
Exports of services, total	23,522	21,228	104,499	101,877	3.7%
Transportation	11,457	10,939	51,685	49,672	2.2%
Travel	4,592	4,655	22,835	24,411	13.7%
Other receipts	7,473	5,634	29,979	27,794	-1.4%
Imports of services, total	-24,585	-27,887	-102,688	-113,143	17.2%
Transportation	-9,313	-9,794	-39,321	-39,843	7.8%
Travel	-8,575	-10,817	-33,406	-39,871	26.9%
Other expenditures	-6,697	-7,276	-29,961	-33,429	18.7%
Balance on Income, net	-2,832	-1,050	-19,284	-17,373	
Receipts	6,152	5,992	17,111	18,527	15.2%
Compensation of employees	1,535	1,580	5,417	6,236	22.4%
Interest and investment income received ²	4,617	4,412	11,694	12,291	11.8%
Expenditures	-8,984	-7,042	-36,395	-35,900	4.9%
Compensation of employees	-111	-105	-702	-465	-29.5%
Interest and investment income paid ²	-8,873	-6,937	-35,693	-35,435	5.6%
Current transfer	-469	-401	1,170	-927	
Capital and Financial Account	7,167	-7,734	11,540	31,816	
Capital transfer, net	-61	-192	-122	-402	
Financial account ³	7,228	-7,542	11,662	32,218	
Financial Account excl. reserves	-3,819	6,062	17,326	55,619	
Direct investment, net	-5,631	-7,616	-9,188	-8,547	
Abroad	-15,132	-12,589	-19,945	-15,070	
In Iceland	9,501	4,973	10,757	6,523	
Portfolio investment, net	-16,226	75,426	22,159	234,395	
Assets	-9,348	-17,893	-30,017	-45,363	
Equities	-7,957	-17,093	-25,735	-40,579	
Debt securities	-1,391	-800	-4,282	-4,784	
Liabilities	-6,878	93,319	52,176	279,758	
Equities	3,492	1,241	1,521	-2,598	
Debt securities	-10,370	92,078	50,655	282,356	
Other investment, net	18,038	-61,748	4,355	-170,229	
Assets	-4,409	-90,731	-30,426	-150,774	
Liabilities	22,447	28,983	34,781	-19,455	
Reserve assets	11,047	-13,604	-5,664	-23,401	
Net errors and omissions	-5,150	21,102	-9,319	13,651	

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>2000</i>	<i>2001</i>	<i>2002</i>	<i>September 2003*</i>	<i>December 2003*3</i>
I. Total assets	315.8	421.1	397.2	528.7	671.3
1 Direct investment abroad	56.2	86.7	89.6	89.4	101.9
11 Equity capital	41.0	66.6	70.7	76.1	82.2
12 Other capital	15.2	20.2	18.9	13.3	19.7
2 Portfolio assets	186.3	202.5	159.3	220.3	250.8
21 Equity capital	179.7	188.0	148.9	195.2	225.8
22 Debt securities	6.6	14.6	10.4	25.1	25.1
221 Bonds and notes	3.6	11.8	9.6	24.9	24.6
222 Money-market instruments	3.0	2.8	0.8	0.3	0.4
3 Financial derivatives	0.0	0.0	0.0	0.0	0.0
4 Other investment, assets	39.1	95.2	111.1	172.6	260.4
5 Reserves	34.2	36.6	37.2	46.4	58.1
II. Total liabilities	764.5	1,008.1	964.3	1,101.9	1,210.2
1 Direct investment in Iceland	41.5	69.5	61.5	55.1	54.6
11 Equity capital	33.1	63.7	56.6	52.1	48.7
12 Other capital	8.5	5.9	4.9	3.0	6.0
2 Portfolio liabilities	346.7	468.0	468.3	665.2	753.1
21 Equity capital	1.2	5.6	7.9	5.0	5.9
22 Debt securities	345.5	462.4	460.4	660.2	747.2
221 Bonds and notes	299.2	379.4	388.4	530.3	619.4
222 Money-market instruments	46.3	83.0	72.0	129.9	127.8
3 Financial derivatives	0.0	0.0	0.0	0.0	0.0
4 Other investment, liabilities	376.2	470.6	434.5	381.5	402.5
41 Long-term loans	289.0	377.3	296.6	261.7	257.9
42 Short-term debt	87.2	93.3	137.9	119.8	144.6
International investment position	-448.7	-587.0	-567.1	-573.2	-538.9
1. Equity capital, net	193.1	199.6	169.2	224.5	267.2
2. Net external debt position	-641.8	-786.6	-736.3	-797.7	-806.1
21 Central Bank	18.6	21.7	20.8	46.2	58.1
22 General governments	-167.4	-239.6	-226.9	-221.9	-218.7
23 Deposit Money Banks	-329.5	-377.4	-367.9	-450.7	-468.3
24 Other sectors	-163.4	-191.4	-162.2	-171.4	-177.3
<i>Exchange rate, ISK per USD</i>	84.47	102.95	80.58	75.89	70.99
IV. External debt ratio (% of GDP):¹					
11 Intern. investment position	-63.8	-75.6	-78.5	-69.7	-67.4
12 Net external debt ²	91.2	101.3	101.9	97.0	100.8
13 External debt position ³	102.5	120.1	123.8	126.7	143.8
131 Of which long-term debt	83.6	97.4	94.8	96.3	109.7

*) 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.