1. General Information

Name

Balance of payments

Supervisor of statistics

Central Bank of Iceland, Statistics

Purpose

The purpose of balance of payments statistics is to measure Iceland's transactions with non-residents. Statistical reporting on the balance of payments is carried out in accordance with the International Monetary Fund's (IMF) *Balance of Payments and International Investment Position Manual, 6th edition* (BPM6). The manual defines presentation, methodology, valuation, and concepts.

Sources

Statistics Iceland measures goods and services trade. The compilation of external trade in services is based mainly on annual and quarterly queries sent to firms. The commercial banks and other financial undertakings, the Treasury, the Central Bank, and other credit institutions and large non-financial firms provide monthly and quarterly or yearly information on their transactions with non-residents. Data from the Directorate of Internal Revenue and the Register of Annual Accounts are used as well.

Statutory authority

The compilation of data, calculation, and publication of the balance of payments is provided for in Chapter VI of the Act on the Central Bank of Iceland, no. 36/2001 and the Foreign Exchange Act, no. 87/1992. These Acts (and the respective regulations, Rules on the Obligation to Provide Information in respect of Foreign Exchange Transactions and Cross-Border Capital Movements, no. 13/1995) contain provisions on resident entities' disclosure requirements and on the obligation of Central Bank employees to observe confidentiality concerning the data compiled for statistical reporting.

2. Methodology

Concepts and definitions

Residents and non-residents

The definition of a *resident* as set forth in the BPM6 accords with that in the Foreign Exchange Act, no. 87/1992: any individual permanently resident in Iceland in accordance with the provisions of the Act on Legal Domicile, irrespective of nationality. Students and embassy employees are exempt from the residency requirement. Therefore, Icelandic students and their families who reside abroad are considered residents, and foreign embassy employees are considered non-residents. *Non-residents* shall mean all parties except residents.

Balance of payments

The balance of payments shows transactions between residents and non-residents over a specified period of time. It is divided into the current account balance, the capital account balance, and the financial account balance. As a general rule, the current account balance and the financial account balance plus the capital account balance should be equal, as a current account surplus increases external assets or reduces liabilities, while a current account deficit erodes external assets or is met with increased foreign borrowing. For each transaction, two entries are made. The amounts of the two entries should be equal, and their sum should be zero. For example, goods imports are entered in the current account, and the payment for the goods is entered in the financial account. If the sum of the two entries is not zero, the remainder is entered under **errors and omissions**. Because each item is measured separately, using data from different providers, it is not guaranteed that the figures will agree. The main reasons for discrepancies in the balance of payments are as follows:

> **Time lags:** The components of the transaction could take place during different periods. For example, if goods are imported in the first quarter and payment is not made until the following quarter, this will cause a discrepancy in both quarters. Over a longer accounting period, however, the discrepancy is netted out.

Price discrepancies: Prices of transaction components could change between the time the trade takes place and the time payment is made. Large exchange rate movements can cause discrepancies, particularly incident to time lags in measurement.

Volume discrepancies: The coverage of the data compiled can vary. In some instances, the Central Bank does not receive information on all components of given transactions, and this can cause discrepancies. There are also cases where the Bank has information on positions in financial assets or liabilities but does not have information on the transactions with the instruments concerned. In those instances, there are methods for estimating the transactions.[1] Averages are often used (for exchange rates and/or prices), which could generate inexact results. The greater the volatility in the foreign exchange and securities markets within a given period, the more difficult it is to estimate transaction values accurately. Furthermore, human error may be made in reporting to the Central Bank.

Current account

The current account shows transactions between residents and non-residents with goods and services, primary income, and secondary income. The current account balance is the difference between revenues from exports, primary income, and secondary income, on the one hand, and expenses due to imports, primary income, and secondary income, on the other. All current account entries have a positive sign, apart from reinvested earnings and goods under merchanting, which could be either positive or negative. Reinvested earnings and goods under merchanting are explained in greater detail below.

Goods trade

Goods trade is divided into three categories: general merchandise on a balance of payments basis, net exports of goods under merchanting, and non-monetary gold. **General merchandise on a balance of payments basis** includes goods transactions involving a change of economic ownership between residents and non-residents. In this context, it is the change of ownership that determines whether the transactions are entered into the current account balance or

[1] If changes in positions are explained by increased coverage, transactions are not estimated. The resulting difference in positions is entered under the item *other changes* (see the section on the IIP and the financial account).

not. Transport of goods from one country to another does not, in and of itself, entail goods trade if there is no change of ownership.

Statistics Iceland compiles statistics on goods imports and exports, as well as external trade, and measures the importation and exportation of goods that are physically transferred to and from Iceland, irrespective of whether a change in ownership has taken place. The Statistics Iceland figures used for balance of payments are adjusted for the balance of payments basis (change in ownership). Statistics Iceland publishes on its website a bridge table showing the changes made to external trade figures to adjust them for the balance of payments basis.

Merchanting includes domestic entities' transactions with goods that do not physically enter Iceland: for example, if a domestic firm buys goods from Germany and sells them on to a buyer in Denmark without physically bringing them to Iceland. Even though the product never enters Iceland, the transaction is still considered a trade between a resident and a non-resident. The purchase of the goods is entered under goods trade as exports of goods under merchanting, with a negative sign. When the same goods are sold, the exportation of the goods is entered in the conventional manner, with a positive sign. The difference between purchase and sale price is shown under the item *Net exports of goods under merchanting*. The difference could reflect the intermediary's profit, gains or losses due to price changes, or changes in inventory. In case of a loss or an increase in inventories, net exports of goods under merchanting could be negative in some instances.

Non-monetary gold includes the importation and exportation of gold other than that belonging to the Central Bank's foreign exchange reserves.

Services trade

Services transactions are entered to the current account balance for the period during which the service is provided. Services trade is divided into twelve categories, the most important of them *manufacturing services on physical inputs owned by others*, *transport*, and *travel*. Other service categories are *maintenance and repair services not included elsewhere (n.i.e.); construction; insurance and pension services; financial services; charges for the use of intellectual property n.i.e.; telecommunications, computer, and information services; other* *business services; personal, cultural, and recreational services;* and *government goods and services n.i.e.* Statistics Iceland oversees the preparation of statistics on services trade and has done so since 2009. Previous figures were prepared by the Central Bank of Iceland.

Income

Income is divided into primary income and secondary income, collectively referred to simply as income.

Primary income

Primary income includes revenues and expenses that derive from institutional units' contribution to the production process or from providing financial assets or leasing natural resources to other institutional units. It includes compensation of employees, investment income, and other primary income.

Compensation of employees includes all of an employee's wages and related expenses when the employee and employer reside in different countries. Compensation is recorded on a gross basis, including the employer's contribution to the social security system, pension funds, and other items paid by the employer as a part of the employee's terms of employment. Only those payments between parties in an employer-employee relationship are included with compensation of employees. Otherwise, the payments are included with services trade.

Investment income is net income from equity holdings (dividends and invested earnings) and liabilities (interest). Net income excludes capital gains, exchange rate gains, and financial intermediation services indirectly measured (FISIM). Investment income is classified according to the activities underlying the investment: direct investment, portfolio investment, other investment, or foreign exchange reserves. These are further classified in terms of the type of investment. Gains and losses due to price and exchange rate movements are separated from gains and losses on equity holdings and are not included in investment income.

Income on **equity and investment fund shares** is classified as dividends or reinvested earnings. **Dividends** are revenues distributed among shareholders in return for their having provided companies with funds for their disposal. Dividends are recognised in the period in which they are paid out.

Reinvested earnings is an imputed value that includes the portion of net profit (excluding price and exchange rate movements) that is not paid out to shareholders as dividends. In investment income, reinvested earnings represents the profit or loss that an investor receives on his holdings during the period, excluding dividends (dividends are also the profit or loss received by the investor on his holdings during a given period). Reinvested earnings, together with exchange rate and price movements, therefore reflects changes in the value of equity between two periods and is entered into the financial account in order to reflect an increase or decrease in equity holdings.

Interest in primary income is measured as pure interest by excluding the FISIM component, **financial intermediation services indirectly measured**, from "actual" interest. Interest that borrowers pay can be split into two parts: pure interest (primary income) and FISIM (service). The same applies to interest received by depositors on their deposit balances. In this way, the service portion is segregated out and recorded as a financial service in the services account. Interest including FISIM is shown as a separate memorandum item.

FISIM is the margin between the deposit interest rates offered by financial institutions and the lending rates they charge, and it is used to cover operating expenses and dividend payments. In this way, borrowers pay indirectly for the services they receive by paying higher interest rather than by paying service charges to lenders. By the same token, the interest income that depositors receive on their balances is considered to be net of service charges. FISIM applies only to loans (or deposits) provided by financial institutions, and not to marketable bonds or trade credit between two non-financial enterprises.

Investment income attributable to investment fund shareholders, including income from equity funds and custodial funds, consists of dividends and reinvested earnings. The funds earn income by investing the capital invested with them by shareholders. Shareholders' income from investment funds is defined as investment income from the fund's investment portfolio, net of operating expenses. The net income earned by investment funds after deducting operating expenses belongs to shareholders.

Like equity funds, **insurance, pension, and standardised guarantee schemes** earn income by investing the capital they receive from policy holders (fund members). The funds' net income after deducting operating expenses belongs to rights holders.

Included in **other primary income** is income from renting natural resources. An example of this is payment for the use of land for extraction of minerals or for the use of fishing waters, forests, or grazing land. Taxes and subsidies on products and production are also included under other primary income.

Secondary income is divided into two categories: **personal transfers** and **other current transfers**. Personal transfers include all monetary transfers between individuals living in two different countries. The most common form is workers' remittances, which are monetary transfers that individuals working abroad send to family members in their home country. Other current transfers consist of contributions to current international operations (development contributions) made by Government entities and non-governmental organisations, employees' pension contributions, and pension benefits paid to retirees. The same applies to wage-earners' social security contributions and social security payments to individuals, such as retirement and disability pensions, accident/illness per diem payments, and so forth. Tax refunds paid by the Government to non-residents, such as value-added tax reimbursements paid to tourists and reimbursements for film production in Iceland, are included in secondary income. Premiums and claims for liability insurance are also included with other current transfers.

Capital account

The **capital account** measures capital transfers "free of charge" between residents and non-residents. Capital transfers can include investment grants, debt forgiveness, or unusually large insurance compensation payments.

Financial account and international investment position

The financial account and the international investment position (IIP) are related in that transactions entered in the financial account partially explain changes in external assets and liabilities between periods. The financial account includes net transactions with financial assets and liabilities which take place between residents and non-residents. The purpose of the financial account is not to measure cross-border movement of capital (even though it is likely that most transactions involve the transfer of funds across borders), but rather to measure transactions between residents and non-residents. Transactions with foreign assets which take place between two residents are not included in the financial account, even though the transaction may entail cross-border movement of capital. The same applies to transactions with domestic assets which take place between two non-residents. Such transactions could nonetheless affect classification for the position of foreign assets or liabilities. For example, if a domestic deposit institution purchases a foreign bond from a domestic non-financial enterprise, it does not change the position of the economy's assets but only reflects the reclassification from one sector to another.

Not all entries in the financial account derive from actual transactions. In certain instances, imputed values are entered to the financial account even though no transaction has taken place. This is done to reflect the underlying economic relationship. The following items fall under this classification:

Reinvested earnings. Reinvested earnings is the portion of net profit (excluding price and exchange rate movements) that is not paid out to shareholders as dividends. Reinvested earnings shows the change in the value of equity between two periods and is entered to the financial account in order to reflect the increase or decrease in the value of equity.

Investment income earned on technical reserves. Income that insurance, pension, and standardised guarantee schemes earn on assets in their custody and that increases policy holders' assets is entered to the financial account to reflect the increase in assets.

Accrued, unpaid interest on liabilities. Accrued, unpaid interest is entered to the financial account as an increase in the relevant asset or liability item. In most cases, however, interest is paid regularly and no entry is made to the financial account.

In the case of so-called bullet bonds or other loans on which accrued interest is added to principal, interest is entered to the financial account as an increase in the loan, even though no actual capital flows have taken place.

Interest in arrears – for example, interest on the debts of d**eposit-taking corporations** in winding-up proceedings – is also entered as an increase in external debt under the relevant liability item, even though no actual transaction has taken place.

Figures with a positive sign indicate an increase in assets or liabilities, and figures with a negative sign indicate a reduction. If the overall balance has a positive sign, it indicates net lending to non-residents, and by the same token, a negative sign indicates net borrowing.

The **international investment position (IIP)** shows the value of residents' financial assets and liabilities to non-residents as of the end of each quarter. The difference between assets and liabilities is the IIP, which indicates whether there is a net claim or a net liability vis-à-vis non-residents. The formula below shows the factors that influence assets and liabilities in the IIP during any given period:

Opening value + transactions in the financial account + exchange rate and price changes + other changes = closing value

Apart from transactions in the financial account, the value of external assets and liabilities can change because of changes in prices and exchange rates. There could be various reasons for other changes; therefore, a discrepancy between data on positions, on the one hand, and transactions, on the other, could lead to an unexplained difference. The greater the volatility in the foreign exchange and securities markets within a given quarter, the more difficult it is to estimate transaction values accurately. When individuals move their legal address to or from the country, it can affect the IIP if they own foreign assets or carry debt owed to non-residents. This does not require an entry in the financial account, however, as no transaction has taken place; instead, the change will be reflected in other changes.

The market price is the basis for valuation of transactions and positions. Nominal valuation is used for positions in non-negotiable instruments, such as loans, deposits, and other accounts receivable/accounts payable. Equity holdings in direct investment are entered as own funds at book value in the books of the direct investment enterprise. Transactions with these instruments are valued at market price.

Direct investment

When a **direct investor** in one country owns 10% or more of the share capital of company (direct investment enterprise) in another country, this is referred to as foreign direct investment (FDI). It is assumed that, when a shareholding is this large (or larger), the investor's intention is to influence the management and policy of the company and establish a long-term business relationship. The loans granted by the direct investor (the investor's non-equity contribution) or companies owned by him are viewed as additional investments in the firm concerned. In balance of payments statistics and in the IIP, foreign direct investment is presented according to the so-called asset and liability principle, which entails entering asset and liability items on a gross basis (claims between parent companies and their subsidiaries are not netted against one another). For example, under this presentation, a loan owed by domestic investor to a foreign entity owned by that investor is entered on the liabilities side in the IIP and is not netted out against the investor's claims against the foreign company on the assets side.

FDI in assets and liabilities are segregated further based on the relationship between the parties. There are three types of FDI relationships:

- **Investment by direct investors in direct investment enterprises**. The direct investor's position and transactions with equity or loans to his direct investment enterprises (irrespective of whether they are under his direct or indirect control or influence).
- **Reverse investment.** This type of relationship covers the direct investment enterprise's position and transactions with equity (under 10%) or loans to the direct investor.
- **Investment between fellow enterprises.** This covers the position and transactions between enterprises that have no control or influence over one another but are both under the control or influence of the same direct investor.

In addition, the position and transactions of fellow enterprises are classified according to whether the end investor is a domestic, foreign, or unknown entity.

The ultimate investor is the party at the top of the chain of ownership, where control over companies is maintained through direct or indirect majority ownership.

It should be noted that FDI figures in the balance of payments and the IIP are not fully comparable with FDI statistics presented according to the directional principle. According to the directional principle, positions and transactions – for example, loans between an investor and a company owned by him – are netted out and entered to either the assets or liabilities side, depending on whether the investor is a resident or a non-resident. For example, net lending between a resident investor and a foreign company owned by that investor would be entered on the assets side, whereas loans between a non-resident investor and a domestic company owned by him would be entered on the liabilities side.

Special purpose entities (SPE) are included in FDI. SPEs are companies that are often established for tax purposes and whose actual operations are limited or non-existent. Some companies of this type are registered in Iceland; however, they are wholly owned by non-residents and own stakes in or loan claims against connected companies abroad, but they have no domestic assets. Actually, they are only shells for capital flowing through Iceland and have very limited economic impact. SPEs are included in statistics from 2013 onwards, but reliable information on their balance sheets from before that time has been lacking. In order to enable users of statistics to acquaint themselves with the IIP and balance of payments flows excluding SPEs, these entities are identified by means of memorandum items in published statistics.

Real estate transactions are classified under FDI. Investments in real estate are not considered financial instruments and are unique in this respect. Real estate transactions can be limited to a single piece of property but can also include real estate companies or holding companies.

Loans between an investor and enterprises with which he is connected in a direct investment relationship are not included with FDI if both parties are a **deposit-taking corporation**, an equity fund, or another financial undertaking (apart from insurance companies and pension funds). In such instances, the loans would be classified under other investment.

Portfolio investment

Portfolio investment includes debt and equity securities apart from reserve assets or those included in foreign direct investment. Securities are debt instruments and share capital that are readily negotiable. Securities are structured so as to make it easy to trade them, usually on a securities exchange or an over-the-counter market.

Equity securities are claims for a specified ownership share in an undertaking, and they entitle the owner to a portion of the excess book value of the company and its annual profit. Equity securities are classified as portfolio investment if the shareholding equals less than 10% in the company concerned. Equity holdings exceeding 10% are classified as direct investment. Investments in equity securities are usually short-term and, unlike direct investment, are not intended to exert control over the management or policies of the company.

Investment fund shares are financial instruments that give the investor a claim on a portion of a collective investment fund. All owners of fund shares have the same right to the fund's income and assets, in proportion to their holding.

Debt securities are negotiable instruments serving as evidence of a debt. Among them are bills, bonds, notes, certificates of deposit, debentures, asset-backed securities, money market instruments, and similar instruments normally traded in the financial markets.

Financial derivatives

Financial derivatives are financial instruments whose value is dependent on the price of another, underlying asset. Financial derivatives are distinguishable from other asset classes because they generally involve the transfer of risk (such as interest rate risk, exchange rate risk, equity and commodity price risks, etc.) rather than the provision of capital or other financial assets. Unlike other financial instruments, derivatives do not generate any primary income. Transactions and positions in financial derivatives are treated separately from the values of any underlying items to which they are linked. In the case of options, the transactions are entered, as is the value of the spread (the buy/sell price of the option and the stated service charge). Repayable margin consists of cash or other collateral deposited to protect a counterparty against default risk. It is classified as a deposit under other investment. Payments of non-repayable margin (also referred to as variation margin) reduce the financial obligation created through a derivative and are therefore classified as transactions in financial derivatives. Financial derivatives fall into the following subcategories: options, forward contracts, and employee stock options.

Options give the purchaser the right to buy or sell the underlying asset at a specified price (the strike price) by a specified date.

Also included in financial derivatives are **employee stock options**, which give employees of a company the right to buy its stock as part of their remuneration package. If an employee stock option can be traded on financial markets without restriction, it is classified as a financial derivative.

Forward contracts are unconditional contracts wherein two counterparties agree to exchange a specified quantity of an underlying asset at an agreed strike price on a specified date.

Other investment

Other investment is a residual category that includes positions and transactions other than those included in direct investment, portfolio investment, financial derivatives and employee stock options, and reserve assets. Falling under other investment are the following: other equity; currency and deposits; loans; insurance, pension, and standardised guarantee schemes; trade credit and advances; other accounts payable and receivable; and SDR allocations (SDR holdings are included under reserve assets).

Other equity is equity not in the form of securities. It can include holdings in branches, trusts, and limited partnerships. Holdings in many international organisations are not in the form of securities and are therefore classified as other equity.

Currency and deposits consist of banknotes and coins in circulation, plus deposits. Deposits are standardised, non-negotiable agreements offered by d**eposit-taking corporations**). The term of deposits can vary, depending on the agreement. Deposits generally imply that the debtor is obliged to return the principal to the investor. They can be held in central banks or in d**eposit-taking corporations**. Interbank positions and other transactions between resident and non-resident d**eposit-taking corporations** are classified as deposits.

Loans are financial assets generated when a lender loans money directly to a borrower.

The **insurance, pension, and standardised guarantee schemes** that most strongly affect Iceland’s balance of payments and IIP – non-life insurance technical reserves and pension entitlements – are discussed below. Other categories are life insurance and annuity entitlements, entitlements to non-pension benefits, claims of pension funds on pension managers, and provisions for calls under standardised guarantees.

Fund members' pension fund assets are not necessarily equivalent to the pension funds' assets because there are different types of funds. They could be either defined-benefit funds or defined-contribution funds. Defined-benefit funds are of two types: funded and unfunded. Assets in defined-benefit funds are calculated in terms of the fund's actuarial position. If a defined-benefit fund is funded, it can be assumed that fund members' assets (their actuarial position) at any given time are equal to the market value of the fund's assets. In the case of unfunded defined-benefit funds, however, the funds' assets could be less than their actuarial position, and the employer is responsible for bridging the gap that develops. Defined-contribution funds are always funded; therefore, fund members' assets at any given time are equal to the market value of the assets in the funds.

Non-life insurance technical reserves fall into two categories. On the one hand is a fund for prepaid premiums, and on the other is a fund for outstanding claims that the insurance companies expect to pay for events that have already occurred. These funds constitute the insurance companies' liabilities and the insured parties' assets. Their impact on statistics is comparable to that of the pension funds, which is described above.

Trade credit is a claim generated when a provider of goods or services grants a customer an extension of time to pay or receive **advance** payment for goods or services. The trade credit and advances derive from the fact that payment for the goods or services is not remitted at the time the goods are delivered or the service provided.

Other accounts receivable/payable includes accounts receivable or payable other than those specified above. They can include tax liabilities, securities transactions, wages, or dividends.

Special Drawing Rights (SDR) allocations to IMF member countries are liabilities that the recipient has incurred, with a corresponding entry under SDR in reserve assets.

Reserve assets

Reserve assets are foreign assets that are always available to monetary authorities and under their control. Reserve assets must be foreign-denominated assets, claims against non-residents, and assets that actually exist. Potential assets are excluded.

Treatment of deposit-taking corporations in winding-up proceedings

Deposit-taking corporations in winding-up proceedings include the estates of the banks and savings banks placed under the administration of resolution committees during the banking collapse of autumn 2008. The estates are still in operation, even though they are no longer licensed to operate as d**eposit-taking corporations**. Their impact on the balance of payments and IIP is significant as regards both external assets and, not least, external liabilities. By definition, only the portion that is past due is considered to be in arrears. Their debts are included in external liabilities and are classified under the original liabilities instrument until they have been settled in one way or another: by being paid, refinanced with other loans, or forgiven by creditors. Interest on the debts is included in primary income, and the transactions are entered into the financial account when payments are made on the debts.

Classification system

Where possible, individual statistical items are broken down by sector (for resident entities) and type of financial instrument. In addition, credit instruments are classified as long- or short-term, depending on whether the original maturity is one year or more, or less than a year. The same classification system is used for the IIP, income, and the financial account. Doing this makes it easier for users to compare positions, transactions, and revenues or expenditures deriving from the item in question. In processing the statistics, attempts are made to prepare and publish as detailed a classification as possible. On the other hand, there are instances when only one or two entities fall under the category in question. In those cases, a detailed breakdown is not published. This is done to avoid revealing information on individual entities, as the Central Bank is under a stringent obligation to observe confidentiality vis-à-vis those who provide information for statistical reporting. As a general rule, each category must contain at least three entities, and no single entity may constitute more than 80% of the total.

Institutional sector classification

Central Bank
Deposit-taking corporations
General government
Other sectors
- Other financial corporations
  - Money market funds (MMF)
  - Non-MMF investment funds
  - Other financial intermediaries
  - Financial auxiliaries
  - Captive financial institutions and money lenders
  - Insurance companies
  - Pension funds
- Non-financial corporations, households, and non-profit institutions serving households (NPISHs)
  - Non-financial corporations
  - Households
  - Non-profit institutions serving households (NPISHs)

Classification of assets and liabilities

Direct investment
- Equity
- Debt instruments

Portfolio investment
- Equities and investment fund shares
  - Equity
  - Investment fund shares
- Debt securities
  - Short-term
  - Long-term

Financial derivatives
Other investment
- Other equity
- Currency and deposits
- Loans
- Insurance, pension, and standardised guarantee schemes
- Trade credit and advances
- Other accounts receivable/payable
- Special drawing rights (SDR)

Reserve assets

3. Integrity of data

Extensive data collection is required for preparation of balance of payments statistics. Data are collected from a large number of resident entities that do business with non-residents. The reliability of the data is based entirely on correct and timely submittal of reports to the Central Bank. Submitters' circumstances vary. For example, most commercial enterprises cannot provide final figures until after their annual accounts have been prepared – usually 6-12 months after the end of the fiscal year. As a result, there could be a 2- to 3-year time lag before final information on transactions can be included in the statistics. However, the Central Bank collects quarterly data from firms that do extensive overseas business; therefore, this time lag applies only to smaller companies.

4. Schedule for revisions

The statistics observe a fixed revision schedule, where previously published figures are revised as new information is received. If new information of significance for the statistics is received, attempts are made to update the statistics as soon as possible. The revision schedule is shown in the table below.

Time:	March	June	September	December
Quarters	Max. 15 quarters	Max. 4 quarters	Max. 17 quarters	Max. 6 quarters

Coverage

The Central Bank attempts to gather information on external transactions from all those who engage in them. If coverage is limited, the figures are estimated based on given assumptions. On the other hand, this is not possible in all cases, primarily where the scope and expense of data collection is too great in comparison with the importance of the data concerned. An example of this is resident individuals' holdings in general pension funds abroad. This category could easily include thousands of individuals whose pension assets are probably distributed across innumerable pension funds in many countries. The same applies to real estate, loans extended to individuals by foreign banks and financial undertakings, and resident individuals' foreign deposits or other assets not reported for tax purposes in Iceland. There is also limited coverage of real estate in Iceland that is directly owned by non-residents (not through real estate firms or holding companies). This refers mainly to property owned by individuals. On the other hand, if real estate is purchased with the involvement of a resident company – for instance, the non-resident establishes a company in Iceland, which buys property here – the non-resident's holding in the company is measured, not the real estate itself. The data collection also doesn't cover securities owned by residents, other than financial undertakings, which are held with foreign custodians.

The FDI sample is taken from operating entities' tax returns and the Register of Annual Accounts. This provides information on parties falling under the definition of FDI. The Central Bank collects the necessary information directly from the parties in the sample. Attempts are made to have parties representing 80% of total FDI positions (excluding SPEs) submit quarterly reports to the Bank. Information from the majority of other undertakings is received via annual reports. For smaller entities, data are compiled directly from tax returns and annual accounts. Other supporting data are used as well, if they are considered reliable. The tax return and annual accounts data for smaller entities are not as suitable for statistical reporting as those obtained directly from firms. For example, they do not contain all balance of payments flows, such as investment income or equity transactions, but they are more reliable as regards positions.

In general, most FDI statistics on positions have good coverage[2] when the fiscal year has been closed out, while smaller entities' flows, as well as the loan positions and flows between fellow enterprises, are underestimated to some degree.

Information on SPEs is taken from the companies' annual accounts and from annual reports submitted to the Bank, if available.

For entities that do not respond to the Central Bank's requests for data, estimated are prepared from older figures and other available data and adjusted for exchange rate

[2] The coverage of position figures is nonetheless limited by whether assets and liabilities are correctly entered in the tax return and in reports submitted to the Register of Annual Accounts.

differences. Irregular items such as dividend payments, equity securities transactions, and loan activities, are not estimated in FDI.

Coverage in historical context

Statistics are constantly in development, and attempts are always being made to improve data compilation where appropriate. In most cases, if new statistics are compiled, it is not possible to obtain historical data, at least not over a long horizon. As a result, there could be breaks in the time series, owing to new data collection.

Financial derivatives are only measured with full coverage back to 2013. Coverage is limited for the period 2009-2012. For 2008 and earlier, information on transactions with financial derivatives is extremely limited, particularly transactions carried out by **deposit-taking corporations**.

Insurance, pension, and standardised guarantee schemes are measured with full coverage back to 2002, as regards additional pension savings overseas. No information is available from before that time.

Interest on foreign long-term loans entered in primary income from 2005 onwards is specified as accrued interest. Before that time, it was entered at the time it was paid; that is, on the payment due date.

Special purpose entities are measured back to 2013. No reliable information is available from before that time.

5. Publication

The balance of payments, the IIP, and a summary of external liabilities are published on the Central Bank's Statistics pages about two months after the end of each quarter. A press release containing the highlights is published at the same time. The balance of payments is calculated on a quarterly basis, and the time series extends back to 1995. The Central Bank submits the same data to the IMF and Eurostat. The data can be found on the websites of these institutions about 1-2 months following domestic publication. The balance of payments is a part of the IMF's Dissemination Standards Bulletin Board.