

The underlying external position of the economy at the end of the first quarter of 2015

The Central Bank of Iceland has published on its website the preliminary statistics for the balance of payments in the first quarter of 2015, and for the external position at the end of the quarter.

For further information, the Bank has simultaneously published an analysis of the underlying net external position of the economy. The assessment of the underlying position entails an estimation of the position that will result when the domestic and foreign assets of the deposit money banks in winding-up proceedings have been sold and the proceeds distributed to creditors.¹ The underlying external position at the end of Q1/2015 was negative by 783 b.kr., or 38% of estimated GDP. In comparison, the underlying position was negative by 880 b.kr. at the end of the fourth quarter of 2014. The underlying external position therefore improved about 97 b.kr., or 4.7% of GDP, in the first quarter. The main changes during the quarter lie in an increase in gross foreign exchange reserves of just under 63 b.kr., which is due in part to resident entities' foreign borrowings, exchange rate movements, and changes in the value of assets and liabilities, which were positive by 71 b.kr. during the quarter.

The net external position was negative by 7,937 b.kr., or 387% of GDP, at the end of the first quarter of 2015. The position excluding the DMBs in winding-up proceedings was positive by 12 b.kr., or 0.5% of GDP. The winding-up of these DMBs is estimated to have a negative effect on the net external position in the amount of 795 b.kr., or just under 39% of GDP.² The underlying international investment position, based on the calculated settlement of the DMBs in winding-up proceedings and the other firms being wound up, is therefore estimated to be negative by 783 b.kr., or 38% of GDP.

¹ Assuming that all of the assets of the DMBs in winding-up proceedings will be distributed equally to all creditors.

² The assessment of the assets of the deposit money banks (DMB) in winding-up proceedings is based on the book value of the assets according to winding-up board estimates. The classification of creditors as domestic or foreign is based on underlying ownership of recognised claims according to the estates' claims registers. It should be noted that both the market value of the assets of the DMBs in winding-up proceedings and the proportional distribution of claims as domestic and foreign are somewhat uncertain. Factors such as the exchange rate used for settlement, the netting of debt, and the resolution of disputes on specific claims will ultimately determine the status of the estates and thereby the effect of their settlement on the external position of the economy.

Table 1. Underlying international investment position as of end-Q1/2015 (% of GDP)

<i>% of GDP</i>	<u>2015, I</u>		
	Foreign assets	Foreign liabilities	International investment position
- total	275	-662	-387
- excl. DMBs in winding-up proceedings	197	-197	0,5
- based on calculated settlement of DMBs in winding-up proceedings	201	-239	-38

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