

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

The Central Bank of Iceland has published on its website the preliminary statistics for the balance of payments in the second quarter of 2015, and for the international investment position (IIP) at the end of the quarter.

For further information, the Central Bank also publishes an assessment of the underlying IIP, which takes account of the effects of the winding-up of the deposit institutions in winding-up proceedings based on the current position and book value of assets according to the winding-up boards' accounts.¹ There is some uncertainty about the ultimate effect of these deposit institutions on the IIP, although it is clear that their winding-up will make a considerable impact. If the Icelandic authorities and the deposit institutions' creditors reach an agreement, this impact will probably show as a reduction in Iceland's external liabilities, which will result in a more positive IIP than these calculations indicate.

The international investment position was negative by 7,665 b.kr., or 365% of GDP, at the end of the second quarter of 2015. The position excluding the deposit institutions in winding-up proceedings was positive, however, by 114 b.kr., or 5.4% of GDP. Based on the current position and the book value of assets, the winding-up of these deposit institutions is estimated to have a negative effect on the net external position in the amount of 806 b.kr., or about 38% of GDP. The underlying IIP is therefore estimated to be negative by 691 b.kr., or 33% of estimated GDP, at the end of the second quarter of 2015.

In comparison, the underlying position was negative by 783 b.kr. at the end of the first quarter of 2015. The underlying IIP therefore improved by 92 b.kr., or 4.4% of GDP, during the quarter. The calculated effect of the winding-up of the deposit institutions in winding-up proceedings

¹ The assessment is based on the assumption that all of the assets of the deposit institutions in winding-up proceedings will be distributed equally to all creditors. Furthermore, creditors are classified as domestic or foreign based on the 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 deposit institutions 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 IIP. The underlying IIP does not reflect the position that will develop if the estates pay a stability tax or stability contribution in accordance with the stability conditions set by the authorities.

was more negative than in the first quarter by 11 b.kr., however, owing mainly to a higher book value of domestic assets.

Table 1. Underlying international investment position as of end-Q2/2015 (% of GDP)

<i>% of GDP</i>	<u>2015, II</u>		
	Foreign assets	Foreign liabilities	International investment position
- total	263.3	627.9	-364.6
- excl. DMBs in winding-up proceedings	188.7	183.2	5.4
- based on calculated settlement of DMBs in winding-up proceedings	192.5	225.4	-32.9

1. The estimate of the calculated settlement does not take account of the payment of a stability tax or stability contribution.

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