

The underlying external position of the economy at the end of the third quarter of 2014

The Central Bank of Iceland has published on its website the preliminary statistics for the balance of payments in the third quarter of 2014, 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 as of end-Q3/2014 is estimated to be negative by 885 b.kr., or 46% of GDP. In comparison, the underlying position was negative by 916 b.kr. at the end of the second quarter of 2014. The underlying external position has therefore improved about 31 b.kr., or 1.5% of GDP, in the third quarter. The increase in the foreign exchange reserves by 64 b.kr. during the quarter is the most important factor here. Offsetting this, the effect of the winding-up of the failed DMBs is now estimated to be negative by an additional 23 b.kr. in comparison with end-Q2/2014, and the effect of the winding-up of other firms is estimated to be negative by an additional 18 b.kr. This is due mainly to an increase in the book value of domestic assets.

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 committee estimates. The classification of creditors as domestic or foreign is based on underlying ownership of recognised claims according to 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 highly 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.

¹ The settlement of the estates of several non-financial domestic firms currently being wound up is included as well (for further explanation, see *Special Publication* no. 9: "Iceland's underlying external position and balance of payments", published 18 March 2013).

Impact of new standards on the net external position

At the end of Q2/2014, the balance of payments and external position were published in accordance with new standards for the first time. At that time, GDP had not yet been published according to the new standards. Measured GDP increased markedly with the change in standards. As a result, values expressed as a proportion of GDP are not fully comparable between publications.

Underlying international investment position

The net external position was negative by 7,620 b.kr., or 396% of GDP, at the end of the third quarter of 2014. The position excluding the DMBs in winding-up proceedings was negative by 110 b.kr., or 6% of GDP. The winding-up of these DMBs is estimated to have a negative effect on the net position in the amount of 818 b.kr., or 42% of GDP, while the other firms in winding-up proceedings will have a positive effect estimated at 43 b.kr., or 2% of GDP. The underlying external 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 885 b.kr., or 46% of GDP.

Table 1. Underlying international investment position (% of GDP)

		<u>2014, III</u>	
	Foreign assets	Foreign liabilities	International investment position
- total	295	-691	-396
- excl. DMBs in winding-up proceedings	193	-199	-6
- based on calculated settlement of DMBs in winding-up proceedings	198	-246	-48
- based on calculated settlement of DMBs and other firms in winding-up proceedings	196	-240	-46

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