

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

The Central Bank of Iceland has published on its website the preliminary statistics for the balance of payments in the second 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 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. 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).

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.

Impact of new standards on the net external position

The Central Bank is now publishing the balance of payments and external position of the economy according to new standards that are explained further on the Bank's website. The new standards and the revision of data have some impact on the external position. At the end of the first quarter, the net external position was negative by 7,462 b.kr., or 411% of GDP, according to the old standards, whereas it is negative by 7,538 b.kr., or 415% of GDP, according to the new standards. Excluding the deposit institutions in winding-up proceedings, the position at the end of the first quarter was negative by

194 b.kr., or 11% of GDP, according to the old standards, but is now estimated to be negative by 250 b.kr., or 14% of GDP. Among other things, individuals' insurance, pension, and standardised guarantee schemes are included with financial assets and liabilities under the new standards. In the first quarter, this change had a negative effect on the net external position in the amount of 36 b.kr., or about 2% of GDP.

Underlying international investment position

The net external position was negative by 7,483 b.kr., or 414% of GDP, at the end of the second quarter of 2014. The position excluding the DMBs in winding-up proceedings was negative by 182 b.kr., or 10% of GDP. The winding-up of these DMBs is estimated to have a negative effect on the net position in the amount of 44% of GDP, while the other firms in winding-up proceedings will have an estimated positive effect of 3% 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 at -51% of GDP. In comparison, the underlying position was negative by 54% of GDP at the end of the first quarter of 2014. The underlying external position therefore improved by 3% of GDP in the second quarter. The most important factor here is the valuation increase in foreign securities owned by Icelandic residents, particularly the pension funds.

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

		<u>2014, II</u>	
	Foreign assets	Foreign liabilities	International investment position
- total	299	-713	-414
- excl. DMBs in winding-up proceedings	194	-204	-10
- based on calculated settlement of DMBs in winding-up proceedings	199	-253	-54
- based on calculated settlement of DMBs and other firms in winding-up proceedings	196	-246	-51

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