

Box 2 Increase in sectoral lending by the credit system, based on constant prices and exchange rates

Iceland's increase in lending in 2000 was divided into central government debt repayments of 18 b.kr. in real terms, or 12%, a rise in local government debt of 4.5 b.kr. or 7%, a rise in corporate debt of 110 b.kr. or 15.5% and growth in debts of households amounting to 66 b.kr. or 12%. Lending by the banking system and investment credit funds and direct foreign borrowing can be specified in more detail. In all, such credit increased by 124 b.kr. over and above changes in the price level and exchange rate last year. Of this figure, debt among manufacturing industries grew the most in real terms, by 31% or 17 b.kr., real debt of companies in the transport sector increased by 27% or 8 b.kr. and that of service companies by 21% or 17 b.kr. Although housing fund lending rose by 29 b.kr. in real terms, the proportional increase was only 9%. Other borrowing by households, however, went up by 39 b.kr., or 35% more than prices and the exchange rate.

Lending by the banking system and investment credit funds, and direct foreign borrowing (less intra-institutional lending), by sector at constant prices and exchange rates

<i>B.kr.</i>	<i>Position at year-end 2000</i>	<i>Increase in 2000</i>	
		<i>B.kr.</i>	<i>%</i>
Central government	109.4	-27.4	-20
Local governments	29.5	2.5	9
Agriculture	27.2	3.1	13
Fisheries	148.1	8.8	6
Commerce	80.3	15.5	24
Manufacturing	71.1	16.9	31
Transport/communications	35.2	7.6	27
Energy	76.2	6.9	10
Housebuilding contractors	11.1	3.4	43
Other contractors	7.1	1.3	22
Services	99.7	17.1	21
Residential housing	338.4	29.1	9
Other borrowing by individuals	151.4	39.2	35
All sectors	1,184.5	124.0	12

The relative importance of foreign-denominated loans by sectors can also be established for lending by the banking system and investment credit funds, and for direct foreign borrowing. In recent years the proportion of foreign-denominated borrowing has remained very high in fish-

eries, transport and energy, and in most cases is probably connected to foreign-denominated revenues.¹ The weighting of foreign debt has increased substantially in commerce and manufacturing industries, and on a smaller scale in services, as the accompanying table shows. Of these sectors, manufacturing industries which compete with imports have the most capacity for absorbing exchange rate shocks; the position of the others is less certain. Finally, foreign-denominated loans to individuals grew substantially last year, from 6 b.kr. to 17 b.kr. Such borrowing was virtually unheard-of at the beginning of 1998. Apparently, sectors without export revenues or scope for competition have been taking currency risks, which undeniably raises their risk exposure over and above the inherent risk that all debt represents.

Foreign-denominated debt:

Position at year-end 2000 in b.kr. and as ratio of total lending by the banking system and investment credit funds, and foreign borrowing, in 1997 and 2000

	<i>% 1997</i>	<i>% 2000</i>	<i>Position in b.kr. 2000</i>
Agriculture	6	13	3.5
Fisheries	79	86	127.1
Commerce	20	41	32.9
Manufacturing	31	62	44.3
Residential housing	0	0	0.4
Transport/communications	80	88	31.2
Energy	100	100	75.9
Local governments	35	46	13.4
Housebuilding contractors	3	19	2.1
Other contractors	27	20	1.4
Central government	88	96	104.9
Services	23	36	36.1
Individuals less resid. housing	1	11	17.2
All sectors	38	41	490.4
Business and households	48	56	333.4
Business (excl. miscellaneous)	60	71	316.3

1. The latter two sectors have a high proportion of direct foreign borrowing. In part, power companies face currency risks because of their reliance on domestic revenues, and the same goes for transport companies.