

## Box 1 Reclassification of lending and marketable securities

In September 2003 a new method was introduced for classifying credit institutions' lending and marketable securities. Individual loans and marketable securities are now automatically classified by economic activity, instead of being done manually. Files from credit institutions are collated with the register of enterprises which uses economic activity codes according to the ÍSAT-95 standard, based on the European Union's NACE (Nomenclature générale des Activités économiques dans les Communautés Européennes) standard.

The new methodology resulted in various changes. All transactions that are entered against a personal ID number are now classified as household debt, even those involving businesses that may previously have been classified under the respective economic activity. The reason is that automatic classification does not enable a distinction to be made between lending for private consumption and for business operation if both are recorded against a personal ID number rather than an enterprise ID number. Although fewer and fewer people probably run businesses using their personal ID number, this is undoubtedly still done on some scale, especially in the case of small activities.

One change entailed by the reclassification led to a sizeable reduction in household debt figures. Previously, the Housing Financing Fund (HFF) classified all its lending as household debt, on the grounds that individuals ultimately paid the loans irrespective of the identity of the original borrower. Under the new classification, a loan is recorded against the registered debtor at any time. More than 11% of HFF lending has thereby been transferred to other entities than households, i.e. local authorities, construction contractors and other economic activities. At the end of September 2003, outstanding HFF lending to households amounted to 380 b.kr., and to other entities 48 b.kr. under the new classification.

The figure for lending to the agricultural sector also decreased because processing of agricultural products was transferred to the manufacturing industry sector and their sale reclassified under the retail sector. A corresponding change was made for fisheries. Furthermore, in both these sectors some business operations are likely to have been registered against per-

sonal ID numbers, and have therefore now been reclassified under households.

Of total domestic lending and marketable securities in the banking system at the end of September 2003, 2% (19 b.kr.) could not be classified under a specific economic activity. This applies to businesses classified in the register of enterprises under codes 97000 (no operations) and 98000 (unspecified operations).

The accompanying table compares the new and previous classifications of domestic lending and marketable securities in the banking system on September 30, 2003. The discrepancy between the bottom-line figures is explained by the fact that lending to foreign entities was formerly incorrectly classified under domestic entities.

Table 1 Sectoral breakdown of deposit money banks' credit and marketable securities  
September 30, 2003

<i>M.kr.</i>	<i>New classi- fication</i>	<i>Earlier classi- fication</i>	<i>Difference</i>
Treasury and govern- ment institutions .....	5,542	12,910	-7,368
Municipalities .....	13,620	16,533	-2,913
Non-bank financial institutions .....	170,537	131,525	39,012
Enterprises .....	566,540	594,453	-27,913
Agriculture.....	6,245	15,200	-8,955
Fisheries .....	48,844	136,261	-87,417
Commerce .....	126,232	100,381	25,851
Manufacturing.....	143,932	77,865	66,067
of which agricultural products.....	4,439	-	4,439
of which marine products	84,885	-	84,885
Contractors <sup>1</sup> .....	38,435	25,418	13,017
Communications .....	16,835	14,745	2,090
Electric power, water and heating .....	2,574	2,560	14
Services .....	183,444	222,024	-38,580
Households <sup>2</sup> .....	174,604	208,041	-33,437
Housing mortgages to individuals.....	-	25,869	-
Other.....	-	182,171	-
Unclassified .....	18,991	-	18,991
Total .....	949,833	963,462	-13,629

1. Earlier as two items; 'housebuilding contractors' and 'other contractors'. 2. A distinction is no longer made between households' mortgage loans and other loans. *Source:* Central Bank of Iceland.