

Revised and updated method for publication of broad money (M3)

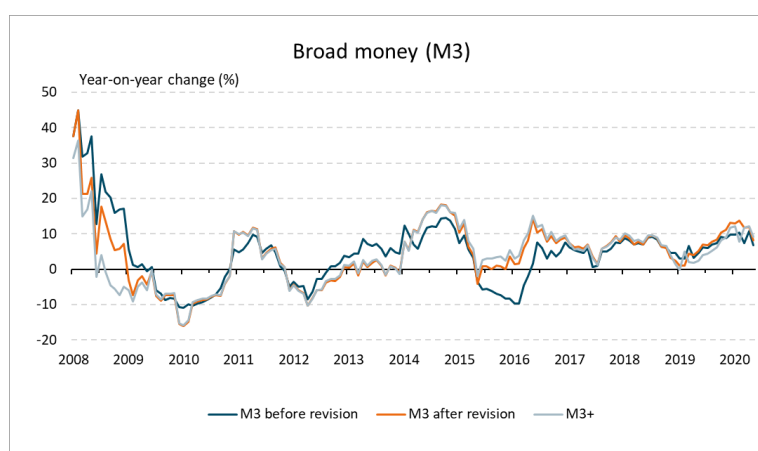
For a number of years, the Central Bank has published calculations of broad money in two ways. The first is based on data as they are received from the parties that submit them and are published on the statistics pages of the Bank's website. The second is broad money as published in *Economic Indicators* and *Monetary Bulletin*, where the data are adjusted for structural changes in the financial market and changes in methodology, with the aim of creating comparable data over a long horizon.

The Bank has now revised its calculation of M3. The changes are of two types. First, the publication and presentation of M3 have been harmonised, so that only broad money adjusted for breaks in time series due to structural changes in the financial market is published. Second, a new data series including M3 plus money market fund unit shares and deposit institutions' short-term debt instruments is now published. The new series is called M3+. With these changes, data on broad money are fully in line with methodology recommended by the International Monetary Fund.¹ The time series have been recalculated back to 2008.

Henceforth, M3 will be published in two ways:

- M3
- M3+: M3 plus money market fund unit shares and deposit institutions' short-term debt instruments.

The impact of the changes can be seen in the chart below.



¹ *Monetary and Financial Statistics Manual and Compilation Guide (International Monetary Fund, 2016).*

In some instances, broad money should reflect structural changes in the financial market. In other instances, the changes are of such a nature that broad money must be adjusted for their impact. The changes made in order to adjust broad money for breaks in time series due to structural changes in the Icelandic financial market are as follows:

- Deposits owned by the failed deposit institutions' estates: Deposits owned by deposit institutions are not included in broad money according to the IMF definition. At the time of the financial collapse in 2008, Iceland's largest deposit institutions were wound up after the Financial Supervisory Authority (FME) had taken them over and ultimately revoked their operating licences. At that point, they were no longer classified as deposit institutions in the legal sense. The IMF standard addresses the position of insolvent estates. It assumes that the deposit institutions' estates remain part of the deposit institution sector until they have been dissolved or entered into composition agreements. As a result, their deposits should not be included in broad money. In addition, deposits held by the estates are not accessible for any use other than for distribution to creditors. In the case of post-crisis Iceland, the creditors were primarily non-residents and the deposits exported from the country.
- Public entities' deposits: In late 2020, Statistics Iceland revised the sectoral classification of certain institutions and companies belonging to the public sector. Deposits owned by parties defined as public sector entities after the reclassification are no longer included in broad money because Treasury deposits are not included, according to the IMF standards followed by the Central Bank. In order to adjust for the exclusion of these parties from broad money, their deposits are deducted from calculated money holdings back to 2008.

Data on broad money (M3 and M3+) are [published monthly on the Central Bank statistics pages](#).