

Underlying international investment position at year-end 2014

The Central Bank of Iceland has published on its website the preliminary statistics for the balance of payments in the fourth quarter of 2014, and for the international investment 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 international investment position at year-end 2014 is estimated to be negative in the amount of 880 b.kr., or 45% of estimated year-2014 GDP. In comparison, the underlying position was negative by 929 b.kr. at the end of the third quarter of 2014. The underlying external position therefore improved, in the fourth quarter, about 49 b.kr., or 2.5% of GDP. The largest movement during the quarter was a 400 b.kr. payment from LBI to its priority creditors, a portion of which was paid using foreign-denominated deposits held in domestic commercial banks. The banks sold foreign short-term assets to offset the withdrawals of the deposits, causing a reduction in foreign assets excluding the DMBs in winding-up proceedings but diminishing the negative effects of the winding-up of the estates. Other key changes are the increase in the net foreign exchange reserves, in the amount of 36 b.kr., and valuation and exchange rate changes in Icelandic residents' foreign equity portfolio investment, which cause an increase of 35 b.kr. on the assets side. On the liabilities side, the increase in debt instruments in the amount of 28 b.kr. was the most important factor. About one-third of the increase is due to a shift from deposits to bonds, while the other two-thirds is due to resident entities' foreign bond issues and unfavourable exchange rate developments on outstanding bonds.

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 board estimates. The classification of creditors as domestic or foreign is based on underlying ownership of recognised claims according to the estates' claims registers. It should be noted that

¹ Assuming that all of the assets of the DMBs in winding-up proceedings will be distributed equally to all creditors.

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.

In recent publications of its estimates of the international investment position, the Central Bank has specified the effects of the winding-up of several non-financial domestic companies currently being wound up. The winding-up of these companies is now well advanced, and the difference between the book value of assets and liabilities is no longer sizeable. The Central Bank is therefore of the opinion that there is no longer any reason to segregate out these companies, as their impact on Iceland's international investment position is no longer significant.

Underlying international investment position

The international investment position was negative by 7,835 b.kr., or 398% of GDP, at the end of 2014. The position excluding the DMBs in winding-up proceedings was negative by 121 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 759 b.kr., or 39% of GDP. The underlying international investment 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 880 b.kr., or 45% of GDP.

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

	<u>2014, IV</u>		
	Foreign assets	Foreign liabilities	International investment position
- total	268	-666	-398
- excl. DMBs in winding-up proceedings	189	-195	-6
- based on calculated settlement of DMBs in winding-up proceedings	192	-237	-45

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