

The underlying external position of the economy at the end of the third quarter of 2013

The Central Bank of Iceland has published on its website the preliminary statistics for the balance of payments in the third quarter of 2013, 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 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. Several non-financial domestic firms currently being wound up are omitted as well (for further explanation, see Special Publication 9: *Iceland's underlying external position and balance of payments*, published 18 March 2013). In the assessment of the underlying net external position, the effects of pharmaceuticals company Actavis are no longer ignored.

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 value of the assets of the DMBs in winding-up proceedings and the proportional distribution of claims as domestic and foreign are subject to some uncertainty. 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.

Underlying international investment position

The net external position was negative by 7,646 b.kr., or 436% of GDP, at the end of the third quarter of 2013. The position excluding the DMBs in winding-up proceedings was negative by 254 b.kr., or 15% of GDP. The winding-up of these DMBs is estimated to have a negative effect on the net position in the amount of 46% of GDP, while the other firms in winding-up proceedings will have an estimated positive effect of 5% of GDP. The underlying external position based on the calculated settlement of the DMBs in winding-up

proceedings, and excluding the other firms being wound up, is therefore estimated at -56% of GDP. In comparison, the underlying position was negative by 65% of GDP at the end of the first and second quarters of 2013. The underlying position excluding the DMBs in winding-up proceedings has improved by about 12% of GDP since the last publication, in part due to revision of previously published figures. There are three main reasons for the quarter-on-quarter improvement: i) Foreign assets in foreign direct investment have increased, while foreign liabilities have decreased, yielding a net improvement of almost 7% of GDP. This is partly due to large domestic companies owned by non-residents. ii) Foreign assets owned by Icelandic residents, apart from foreign direct investment, increased by just over 3% of GDP during the quarter, mostly due to foreign securities holdings, which appreciated as a result of price increases in foreign markets. iii) Residents have continued to pay down foreign debt, and both accounts payable and long-term debt declined by a total of almost 2% of GDP during the quarter. Offsetting these items, however, the winding-up of the failed DMBs is estimated to have a negative effect on the external position in the amount of 46% of GDP, as opposed to the previous estimate of 43%. This is due to valuation increases in domestic assets in the estates' accounts.

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

	<u>2013, III</u>		
	Foreign assets	Foreign liabilities	International investment position
- total	270	-706	-436
- excl. DMBs in winding-up proceedings	156	-171	-15
- based on calculated settlement of DMBs in winding-up proceedings	161	-222	-61
- underlying debt based on calculated settlement of DMBs in winding-up proceedings and excluding other firms being wound up	156	-212	-56

Further information can be obtained from Eggert Þ. Þórarinnsson, Financial Stability Department, Central Bank of Iceland, at tel +354 569-9600.