

Underlying external position of the economy at the end of the first quarter of 2013

The Central Bank of Iceland has published a preliminary summary of the balance of payments for Q1/2013 and the external position at the end of the quarter.

For further information, the Central Bank is now publishing a concurrent estimate of the underlying net external position (international investment position, or IIP) of the economy. Assessing the underlying position entails estimating the position that will result when the domestic and foreign assets of the deposit money banks (DMBs) in winding-up proceedings have been sold and the proceeds distributed to creditors. Furthermore, several non-financial domestic companies currently undergoing winding-up proceedings are omitted (for further explanation, see Central Bank *Special Publication* no. 9: “*Iceland’s underlying external position and balance of payments*”, published on 18 March 2013). In the recent past, the Central Bank has also omitted the effects of pharmaceuticals company Actavis in its estimates of the underlying external position of the economy. Actavis was sold in late 2012, and in the company’s assets and liabilities were subsequently redistributed. This significantly reduced Actavis’ effect on the IIP, and the Central Bank is of the opinion that there is no longer any reason to omit the company from the calculations, even though it still affects the IIP somewhat, or by about –11% of GDP as of the end of Q1.

Book value according to the winding-up committees’ accounts is used to assess the assets of the DMBs in winding-up proceedings. The classification of creditors as domestic or foreign is carried out with reference to approved claims according to creditors’ registers, itemised by underlying assets. It is appropriate to note that the value of the assets of the DMBs in winding-up proceedings is uncertain, as is the proportional classification of creditors into foreign and domestic. Factors such as the settlement exchange rate of currencies, netting of debt, and the resolution of disputes about specific claims will ultimately determine the position of the estates and thereby the effect on the IIP.

Underlying net external position

The net external position was negative by 8,249 b.kr., or 479% of GDP, at the end of Q1/2013. Excluding the DMBs in winding-up

proceedings, the position was negative by 453 b.kr., or 26% of GDP. It is assumed that the winding up of the failed DMBs will have a negative effect on the net position in the amount of 43% of GDP, and that the other companies whose winding-up is still in progress will have a positive effect in the amount of 4% of GDP. The underlying external position based on the calculated settlement of the DMBs in winding-up proceedings and excluding the companies whose winding-up is still in progress is estimated to be negative by 65% of GDP. It is appropriate to reiterate that this figure is not fully comparable with previous information published by the Central Bank, as the effects of pharmaceuticals company Actavis are no longer excluded from the underlying position. If adjusted for Actavis using the method used for the *Special Publication* from March or the Bank's *Financial Stability* report, published in April, the outcome is somewhat better than in those reports; it is negative by 54% of GDP, as opposed to 60% in March and 58% in April.

Table 1. Underlying external position of the economy (% of GDP)

		<u>2013, I</u>	
	Foreign assets	Foreign liabilities	Net external position
- total	267	-746	-479
- excl. DMBs in winding-up proceedings	152	-178	-26
- based on calculated settlement of DMBs in winding-up proceedings	157	-227	-69
- underlying debt based on calculated settlement of DMBs in winding-up proceedings and excl. other firms being wound up	151	-215	-65

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