

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

The Central Bank of Iceland has published on its website the preliminary statistics for the balance of payments in the second 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 (international investment position, or IIP) 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 (DMB) 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). The effects of pharmaceuticals company Actavis are no longer omitted from the assessment of the underlying net external position (for further discussion, see the Central Bank press release on the underlying external position of the economy at the end of the first quarter of 2013).

The assessment of the assets of the DMBs 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 7,885 b.kr., or 458% of GDP, at the end of the second quarter of 2013. The position excluding the DMBs in winding-up proceedings was negative by 464 b.kr., or 27% of GDP. The winding-up of these DMBs is estimated to have a

negative effect on the net position in the amount of 43% 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 -65% of GDP. Because the effects of Actavis are no longer excluded, this figure is only fully comparable to the Central Bank's estimate of the underlying external position at the end of the first quarter of 2013. At that time, the underlying external position was also estimated at -65% of GDP.

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

	<u>2013, II</u>		
	Foreign assets	Foreign liabilities	International investment position
- total	271	-729	-458
- excl. DMBs in winding-up proceedings	153	-180	-27
- based on calculated settlement of DMBs in winding-up proceedings	158	-228	-70
- underlying debt based on calculated settlement of DMBs in winding-up proceedings and excluding other firms being wound up	152	-217	-65

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