

Alþingi
Erindi nr. P 138/93
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Komið þið sæl,

Í framhaldi af fundi efnahags- og skattanefndar á laugardaginn var.

Að neðan eru svör fulltrúa Alþjóðagjaldeyrissjóðsins sem út af stóðu í lok umræðu um skuldapól Íslands.

Kv. Eiríkur Áki

From: Rozwadowski, Franek J. [mailto:FROZWADOWSKI@imf.org]

Sent: 10. nóvember 2009 17:07

To: Eiríkur Áki Eggertsson

Subject: Follow-up on Parliamentarians' questions

UNCLASSIFIED

Dear Eiríkur,
Grateful if you would forward this to the members of the committee.
Kveðja,
Franek

To Members of the Althingi Committee on the Economy and Taxation

On Saturday I promised a follow-up to a few of the questions posed by committee members

Ögmundur Jónasson

How are PPP-related borrowings accounted for in the government debt statistics?

The answer depends on how the PPP is structured, i.e. who bears the financial risk. For projects with no government financing and no government guarantee the impact on government debt is zero. For projects where the government provides funds directly, the corresponding government borrowing is automatically counted as government debt. To the extent that the government provides a guarantee this does not count as government debt but tables presenting government debt numbers should in all cases provide a transparent treatment of government guarantees.

Typically the total amount of guarantees would be shown in a separate line (often in the Memorandum Items section) that shows government guarantees. If there is a high probability that the guarantee will become effective the amount is moved out of the memorandum line and into the debt line. An example is Table 6 of the IMF Staff Report. There, most government guarantees are shown as a memorandum item (third line from the bottom) but the estimated net present value of the Icesave guarantee is included in general government gross debt.

What is the net cost of the Sedlabanki's external reserve position?

The question as posed above does not have a clear answer. One would have to know the interest earned on the Sedlabanki's deposits abroad as well as the interest paid on the Sedlabanki liabilities that fund the deposits. The first part is straightforward but the second is not because it is not clear which liabilities should be considered as funding the reserves. For example in September 2009 the Sí's foreign currency assets were 435 billion krona, its foreign currency liabilities were 573 billion and its domestic currency liabilities were 171 billion.

But I suspect that the question of real concern is: what is the net cost of the borrowing under the program? In this connection, it is important to keep in mind that about half of the borrowed money goes to strengthen reserves (this is now largely achieved) while the other half will go to help refinance

external debt coming due, including official debt. This has two implications. First, given Iceland's current risk premium of three or four percent, there is no doubt that refinancing by borrowing from the IMF/Nordics/Poland is considerably cheaper than refinancing with market finance. Second, the policy of maintaining a strong external reserve position for the SÍ will boost confidence and thereby contribute to lowering Iceland's its borrowing costs over the medium term. On balance, therefore, this borrowing should save Iceland money.

Lilja Mósedóttir

What is the consequence for Iceland's indebtedness of the projected current account deficits through 2014?

I wanted to elaborate a bit on the answer I gave on Saturday

First, on *gross debt*, the analysis in Appendix 1 of the IMF Staff Report shows a significant decline through 2014 (from about 307 percent of GDP to about 210 percent) reflecting two main factors--the use of asset sales to reduce debt (e.g. Icesave, company debt) and the increase in GDP.

Second, on *net debt*, the balance of payments projection in Table 8 implies a decline in cash terms. This is because the small current account deficits are more than covered by inflows from direct investment. So the nominal amount of debt is projected to decline. The ratio to GDP is of course projected to decline by more since GDP is projected to grow.

Best wishes,

Franek Rozwadowski