Iceland

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BBB+
Short-Term IDR	F2

Local Currency

Long-Term IDR	BBB+
Short-Term IDR	F2

Country Ceiling	BBB+

Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable

Financial Data

Iceland

USDbn	2015
GDP	16.7
GDP per head (USD 000)	50.5
Population (m)	0.3
International reserves	5
Net external debt (% GDP)	37.7
Central government total debt	60.5
CG foreign-currency debt	2.4
CG domestically issued debt (ISKbn)	1,026.8

Related Research

Iceland (January 2016)

Iceland Political Crisis Raises Macro Policy Uncertainty (April 2016)

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Key Rating Drivers

Criteria Changes Applied to Ratings: Iceland's credit profile no longer supports a notching up of the Long-Term Local-Currency (LTLC) IDR above the Long-Term Foreign-Currency IDR. This reflects Fitch Ratings' view that neither of the two key factors cited in the criteria that support upward notching are present for Iceland. Therefore, Fitch has downgraded Iceland's LTLC IDR to 'BBB+' from 'A-'. Fitch has also assigned Iceland a new Short-Term Local Currency IDR of 'F2'.

Long-Term Foreign-Currency IDR Affirmed: Iceland's ratings are underpinned by a very high level of income per capita. Its governance indicators and human development indicators are similar to those of the highest-rated sovereigns.

Improved Fiscal Metrics: Public debt sustainability has improved substantially over the past year. The general government debt/GDP ratio declined to 66.2% in 2015 from 82% in 2014, thanks to favourable debt dynamics and to downpayments on a number of outstanding debts. Fitch Ratings expects the government debt ratio to fall further to 48% of GDP by 2018.

External Buffer Strengthened: Iceland is relatively highly indebted to foreign creditors with gross external debt at over 300% of CXR, but external finances continue to improve, reflecting current account surpluses. The krona has appreciated, with the Icelandic central bank offsetting upward pressures on the ISK by accumulating foreign currency. FX reserves are around 30% of GDP. This buffer gives the authorities a greater degree of confidence to proceed with the removal of capital controls on Icelandic households and firms.

Currency, Capital Flows Measures: Paving the way for this, the Icelandic central bank has held a voluntary currency auction designed to encourage non-resident holders of ISK assets "locked in" due to capital controls to exchange ISK assets for FX at a discount to the onshore exchange rate. The Icelandic authorities have also introduced a special reserve requirement to avoid excessive inflows related to the carry trade. Initially, non-resident investors will have to deposit 40% of the invested amount in a special reserve at the central bank for 12 months.

Strong Growth, Stability Risks: The Icelandic economy expanded by 4% in 2015, with domestic demand (+6.3%) and tourism the main drivers of GDP growth. We expect this pattern of growth to continue, with GDP rising 4% this year, before slowing down to 3% by 2018. Domestic cost pressures resulting from above-trend growth and high wage settlements have not yet translated into high inflation, but coupled with the appreciating real exchange rate, this represents a potential risk to macroeconomic stability.

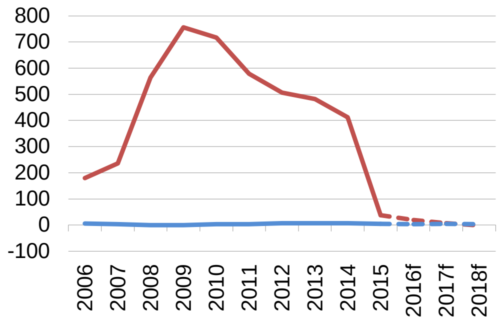
Rating Sensitivities

Balanced Growth, Fiscals, Externals: The main factors that, individually or collectively, could trigger positive rating action are: a track record of continued economic growth without excessive macroeconomic imbalances; continued improvements in debt dynamics, supported by prudent fiscal policy; and continued reductions in external vulnerability.

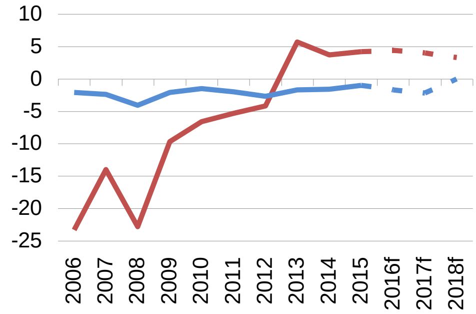
Overheating, Capital Flows: Developments that, individually or collectively, could trigger negative rating action are: evidence of overheating in the domestic economy; excessive capital outflows after the lifting of capital controls, leading to external imbalances and pressures on the exchange rate; and a weakened commitment to fiscal consolidation, for example through continued pro-cyclical fiscal policy that would reverse or stall the decline in the public debt ratio.

Peer Comparison

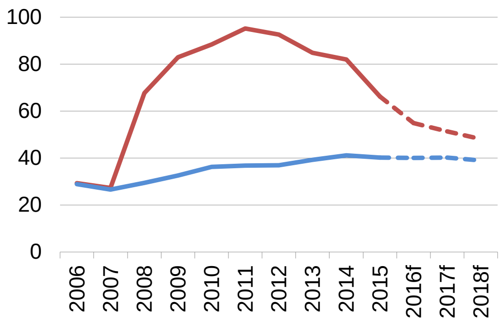
Net External Debt
% of GDP



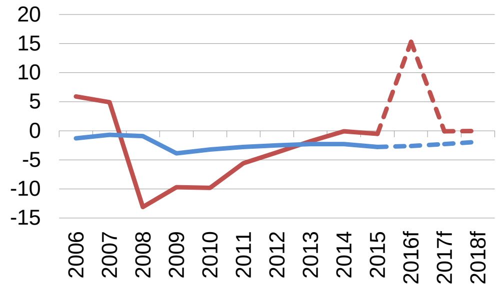
Current Account Balance
% of GDP



General Government Debt
% of GDP

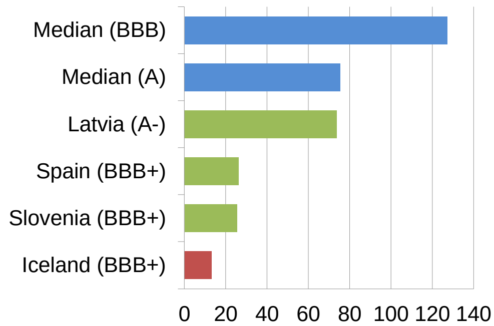


General Government Balance
% of GDP

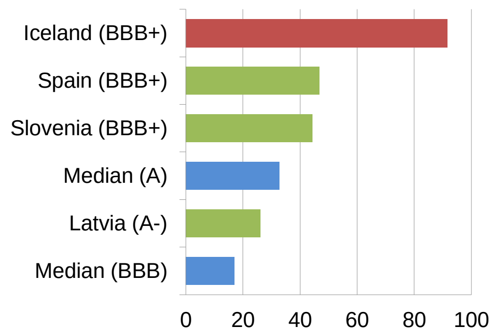


Iceland Medians

International Liquidity Ratio, 2016
%



GDP per capita Income, 2015e
At market exchange rates, USA=100



Related Criteria

Sovereign Rating Criteria (July 2016)
Country Ceilings (August 2015)

Peer Group

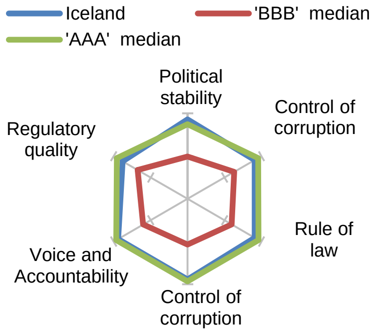
Rating	Country
A-	Latvia
	Lithuania
	Malaysia
	Poland
BBB+	**Iceland**
	Italy
	Mexico
	Peru
	Slovenia
	Spain
	Thailand
BBB	Andorra
	Colombia
	Kazakhstan
	Panama
	San Marino

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
22 Jul 16	BBB+	BBB+
24 Jul 15	BBB+	A−
14 Feb 13	BBB	BBB+
17 Feb 12	BBB−	BBB+
05 Jan 10	BB+	BBB+
08 Oct 08	BBB−	A−
30 Sep 08	A−	AA
15 Mar 07	A+	AA+
03 Feb 00	AA−	AAA

Governance Indicators

Percentile rank



Source: Fitch

Rating Factors

Summary: Strengths and Weaknesses

Rating factor	Macroeconomic	Public finances	External finances	Structural issues
Status	Neutral	Neutral	Weakness	Strength
Trend	Stable	Positive	Positive	Stable

Note: Relative to 'BBB' category
Source: Fitch

Strengths

- Iceland has very high income per capita compared to rating peers (a 2015 estimate of USD50,500 compared to the 'BBB' median of USD9,400).
- Iceland's scores on indicators of measures of Governance, Human Development and Ease of Doing Business are similar to those of 'AAA' and 'AA' rated countries.
- The Icelandic economy has recovered from the disruption following the financial crisis in 2008/2009. The level of real GDP is around 5.5% above its peak in 2008. Unemployment is well below the rating peer median.
- The current account has been in surplus for the past three years and now compares favourably with the peer median.

Weaknesses

- Capital controls on residents remain in place, pending the completion of the government's liberalisation strategy. Despite the currency auctions held in June, around ISK235bn (around 10% of GDP) in non-resident krona assets remain "locked in".
- Public finances are now less of a risk than in previous reviews, with the government debt/GDP ratio having fallen by almost 30pp from its 2011 peak. Nevertheless, the debt/GDP ratio (at 66.2% at end-2015) is more than 25pp above the rating peer median.
- The completion of composition agreements with the old banks has brought about a dramatic reduction in net external debt and an improvement in the net international investment position (NIIP). That said, estimated net external debt at end-2015 (37.7% of GDP) is still substantially higher than the 'BBB' median.
- Private-sector debt remains high, despite a process of deleveraging over the past five years. At end-2015, household and corporate sector debt stood at 84% and 93% of GDP respectively.

Local-Currency Rating

Iceland's credit profile does not support a notching up of the LTLC IDR above the LTFC IDR. In Fitch's view, neither of the two key factors that support upward notching of the LTLC IDR cited in the criteria are present: (i) strong public finance fundamentals relative to external finance fundamentals; and (ii) previous preferential treatment of local-currency creditors relative to foreign-currency creditors.

Country Ceiling

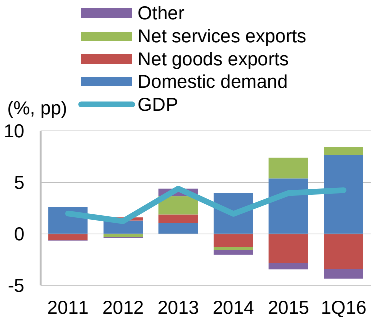
The Country Ceiling is aligned with the sovereign's Long-Term Foreign-Currency IDR, reflecting the imposition of capital controls since 2008, which ring-fenced sovereign debt service but trapped a substantial amount of non-resident assets in local-currency debt instruments.

Strengths and Weaknesses: Comparative Analysis

2015	Iceland BBB+	BBB Median[a]	A Median[a]	Latvia A−	Slovenia BBB+	Spain BBB+
Macroeconomic performance and policies						
Real GDP (5yr average % change)	2.7	3.3	3.2	3.7	0.6	-0.1
Volatility of GDP (10yr rolling SD)	4.0	2.8	3.2	7.6	4.3	2.7
Consumer prices (5yr average)	3.1	3.3	1.8	1.5	1.9	1.2
Volatility of CPI (10yr rolling SD)	5.0	1.9	1.8	5.2	1.4	1.7
Unemployment rate (%)	4.0	6.9	6.2	9.9	9.0	22.1
Type of exchange rate regime	Managed float	n.a.	n.a.	EMU	EMU	EMU
Dollarisation ratio (% of bank deposits)	16.0	19.8	12.7	39.8	2.0	3.4
REER volatility (10yr rolling SD)	10.3	5.0	5.1	5.2	2.8	3.7
Structural features						
GDP per capita (USD, mkt. exchange rates)	50,536	9,358	18,646	13,560	20,596	25,816
GNI per capita (PPP, USD, latest)	42,530	18,290	26,188	23,150	29,441	33,767
GDP (USDbn)	16.7	n.a.	n.a.	27.0	42.7	1,199.2
Human development index (percentile, latest)	93.5	63.4	80.1	74.7	87.0	86.0
Governance indicator (percentile, latest)[b]	91.9	57.1	76.8	74.0	75.9	74.3
Broad money (% GDP)	43.9	70.5	78.8	47.5	55.1	106.2
Default record (year cured)[c]	-	n.a.	n.a.	-	1996	-
Ease of doing business (percentile, latest)	90.5	71.9	85.2	88.9	85.2	83.0
Trade openness (avg. of CXR + CXP % GDP)	56.7	41.9	69.2	69.1	79.4	38.4
Gross domestic savings (% GDP)	26.3	23.3	26.3	20.6	29.6	23.1
Gross domestic investment (% GDP)	19.2	22.4	22.0	22.0	20.2	20.7
Private credit (% GDP)	95.6	61.5	80.7	48.7	50.3	118.8
Bank systemic risk indicators[d]	-/1	n.a.	n.a.	-/1	b/1	bbb/1
Bank system capital ratio (% assets)	27.6	15.6	17.3	21.3	18.8	14.7
Foreign bank ownership (% assets)	38.4	32.0	59.6	62.7	35.0	9.8
Public bank ownership (% assets)	41.8	19.9	16.0	0.0	60.0	18.2
External finances						
Current account balance + net FDI (% GDP)	7.4	0.8	2.6	1.1	9.8	-0.7
Current account balance (% GDP)	4.2	-1.3	2.9	-1.2	7.3	1.4
Net external debt (% GDP)	37.7	6.5	-18.8	22.6	31.0	90.6
Gross external debt (% CXR)	302.3	132.6	101.5	194.6	136.2	446.9
Gross sovereign external debt (% GXD)	15.1	31.3	28.4	24.3	56.1	42.3
Sovereign net foreign assets (% GDP)	3.2	2.2	9.6	9.8	-32.8	-58.3
Ext. interest service ratio (% CXR)	9.6	4.9	2.4	2.1	3.3	4.9
Ext. debt service ratio (% CXR)	234.6	14.9	13.8	23.0	15.4	67.0
Foreign exchange reserves (months of CXP)	6.6	5.7	4.0	2.2	0.3	1.4
Liquidity ratio (latest)[e]	14.0	143.5	75.7	73.9	25.4	26.2
Share of currency in global reserves (%)	0	n.a.	n.a.	0	20	20
Commodity export dependence (% CXR, latest)	43.4	19.8	10.7	29.6	14.9	17.9
Sovereign net foreign currency debt (% GDP)	-5.0	-6.4	-6.2	32.3	-2.1	-4.3
Public finances[f]						
Budget balance (% GDP)	-0.5	-2.6	-1.9	-1.3	-2.9	-5.1
Primary balance (% GDP)	3.9	-0.5	-0.6	0.0	0.0	-2.0
Gross debt (% revenue)	156.9	168.0	137.4	101.4	184.5	259.6
Gross debt (% GDP)	66.2	40.6	43.9	36.4	83.2	99.2
Net debt (% GDP)	46.5	32.6	40.5	34.3	72.9	94.5
Foreign currency debt (% total debt)	38.0	36.1	18.6	26.7	0.0	0.2
Interest payments (% revenue)	10.5	7.5	4.7	3.6	6.6	8.0
Revenues and grants (% GDP)	42.2	30.0	34.9	35.9	45.1	38.2
Volatility of revenues/GDP ratio	6.5	6.2	4.5	3.3	2.5	5.1
Central govt. debt maturities (% GDP)	12.9	5.2	4.5	9.5	8.5	7.2

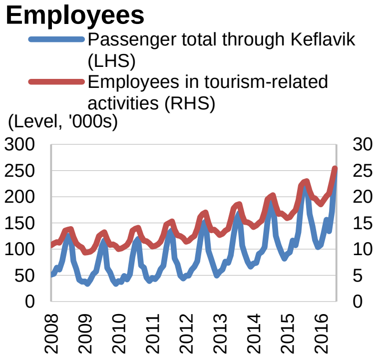
[a] Medians based on three-year centred averages
[b] Composite of six World Bank Governance Indicators used in the Sovereign Rating Model; Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence
[c] Insert modern (ie. since 1980) rescheduling history eg. Paris Club and London Club agreements in 1991 and 1994; 50% NPV reduction
[d] Bank systemic indicator, which equates to a weighted average Viability Rating; and macro prudential indicator, with 1 'low' systemic risk through to 3 'high'
[e] Ratio of liquid external assets, defined as the stock of official FX reserves including gold at the end of the previous calendar year plus banks' liquid external assets, to liquid external liabilities, defined as scheduled external debt service in the current year, plus the stock of short-term external debt and all non-resident holdings of marketable medium- and long-term local-currency debt at the end of the previous calendar year
[f] General government unless stated
Note: Acronyms used: Consumer price inflation (CPI), gross domestic product (GDP), current external receipts (CXR), current external payments (CXP), gross national income (GNI), purchasing power parity (PPP), standard deviation (SD), foreign direct investment (FDI)
Source: Fitch

Contributions to Annual GDP Growth



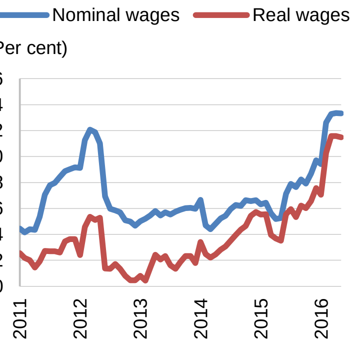
Source: Statistics Iceland

Tourism Arrivals and Employees



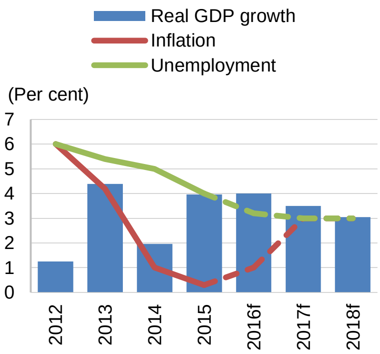
Source: Statistics Iceland

Annual Growth in Wages



Source: Statistics Iceland

Macroeconomic Projections



Source: Statistics Iceland, Fitch

Key Credit Developments

Domestic Demand and Tourism Driving Growth

The Icelandic economy expanded by 4% in 2015, with domestic demand (+6.3%) and tourism the main drivers of GDP growth. Fitch expects continued robust growth, albeit at a slightly declining pace, over the next three years.

Private consumption rose by 4.8%, boosted by positive real income dynamics and improving asset prices, household balance sheets and terms of trade. High wage settlements agreed in 2015 will support nominal wage growth over the next two-and-a-half years. House price inflation has averaged 8.1% this year (6.1% in real terms). Whole economy investment rose by 18.6% in 2015, with business investment rising by almost 30%, with construction investment for the tourism sector accounting for much of the increase.

Overall exports rose by 8.2% in 2015, with services exports 13.7% higher than in 2014 (and goods exports up by just over 3%). Strong domestic investment and consumption drove imports up by 13.5% (with good imports up by almost 19%). This means that the overall net trade contribution was negative (−0.8pp). Available data for this year confirm the pattern of domestic demand driving growth. Real GDP in 1Q16 was 4.2% higher than in 1Q15, with domestic demand up by 8.5%.

We expect GDP growth to be 4.0% this year, before slowing down over the next two years to 3.0%. One risk to growth prospects is related to the Brexit vote in the UK. The UK accounts for around 12% of Icelandic goods exports and 14% of tourist arrivals in Iceland. A sharper-than-expected economic downturn and exchange rate depreciation in the UK would affect Iceland's export and growth dynamics. Domestic cost pressures resulting from above-trend growth and high wage settlements have not yet translated into high inflation, but coupled with the appreciating real exchange rate, this represents a potential risk to macroeconomic stability.

Current Account Surplus to Narrow; Inflation to Pick Up

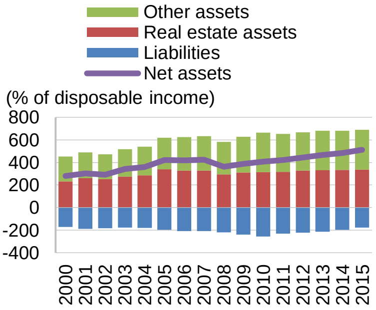
The current account surplus improved to 4.2% of GDP in 2015 from 3.7% in 2014, due to improvements in both the trade (due to services) and the income balance. We expect domestic demand-driven growth to push down on the current account over the next three years. At the same time, the income balance has improved due to transactions related to the failed banks' estates dropping out following the completion of composition agreements. Overall, we expect the current account surplus to narrow to 3.3% by 2018. The real exchange rate has picked up sharply; in 1Q16 it was 26.6% higher than a year earlier (in unit labour cost terms).

Inflation has remained muted, despite above-average growth and increasing labour costs. Low import prices have pushed down on overall inflation over the past two years. Terms-of-trade improvements (just over 7% in 2015, with terms of trade for goods up by 11.3%) may have led firms to absorb rising wage costs in their profit margins rather than raise prices.

Consumer price inflation has averaged 1.8% so far this year, and 0.8% on the harmonised HICP measure. Inflation expectations are above the 2.5% target, but they have not drifted up over the past six months. We expect inflationary pressures from above-trend growth and high labour costs to come through gradually, with HICP inflation averaging 1% this year and 3% in 2017-2018. The Central Bank of Iceland (CBI) has not raised interest rates yet this year from the current level of 5.75%. We assume that interest rates will average 6% through 2018.

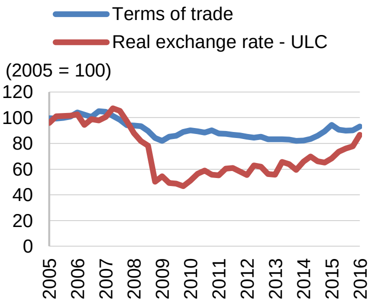
Strong economic growth has led to a further, steady decline in unemployment. The unemployment rate declined (on a seasonally adjusted basis) from 4.3% to 3.4% over the course of 2015, and has fallen further to 3.1%. We expect unemployment to remain broadly stable over the forecast horizon.

Household Assets and Liabilities



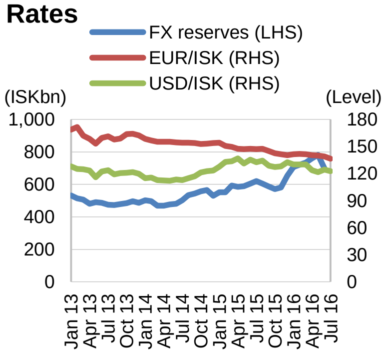
Source: Central Bank of Iceland, Statistics Iceland

Real Exchange Rate and Terms of Trade



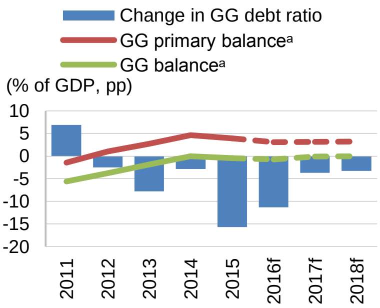
Source: Central Bank of Iceland, Statlstics Iceland

FX Reserves and Exchange Rates



Source: Central Bank of Iceland, Datastream

General Government Balances and Debt



[a] Excluding impact of stability contributions
Source: Statistics Iceland, Fitch

FX Reserve Position Strong Despite Currency Auction

The nominal krona exchange rate has also strengthened in recent months. In trade-weighted terms, the krona has strengthened by around 4% since 1 January, with the bilateral exchange rates against the EUR and USD strengthening by around 3.7% and 5.5% respectively since end-2015.

The CBI has to an extent pushed back against the appreciation of the exchange rate by intervening in the foreign exchange market and building up further its stock of foreign exchange reserves, which rose from ISK621bn at end-2015 to ISK739bn (around 31% of GDP) in May.

In the second half of June, the CBI conducted a voluntary currency auction aimed at unwinding non-resident ISK assets “locked in” due to capital controls. The CBI offered to exchange foreign currency for assets in ISK at a sliding exchange rate (depending on sums offered) from EUR/ISK 190 to 220. (EUR/ISK220 was the average exchange rate resulting from the 21 foreign exchange auctions that took place between 2011 and 2015.)

The CBI has stated that offers amounting to ISK83bn were accepted, and that FX reserves were reduced by ISK54bn as a result. Owners of “offshore” krona can still exchange their assets at EUR/ISK220 until 1 November. After 1 November, the owners of “offshore” ISK will maintain the option of reinvesting the principal of matured investments in Treasury bills, and in addition will be able to reinvest in CBI certificates of deposit, yielding initially 0.5% per year.

In conjunction with the currency auction, the Icelandic authorities introduced a special reserve requirement on capital inflows to avoid excessive capital inflows related to carry trade, given the interest rate differential between Iceland and other developed-market economies. Initially, non-resident investors will have to deposit 40% of the invested amount in a special reserve at the central bank for 12 months.

Fiscal Metrics Improving While Policy Stance Looser

The government has issued its first five-year statement on fiscal policy and fiscal strategy plan according to the new budget law. The budget law requires: that the government budget should be in balance on a five-year basis; a deficit limit of 2.5% of GDP for any given year; and a 30% limit for the government debt ratio in net terms (excluding liquid assets). A parliamentary election is widely expected to take place in the autumn, so the final version of the budget for 2017 may be finalised close to year-end.

The general government balance was −0.5% of GDP in 2015, with both the revenue/GDP ratio and the expenditure/GDP ratio falling back from 2014. The government debt/GDP ratio fell from 82% in 2014 to 66.2%, as the Treasury paid down a number of outstanding loans.

Public finance estimates for this year are distorted by the fact that the stability contributions paid by the estates of the failed banks accrue to this year – the estimated amount is ISK384bn (around 16% of GDP) (see *Iceland*, dated 22 January 2016). We estimated that the headline budget surplus will be 15.3% of GDP. On an underlying basis, we expect both revenues and spending to fall back as a share of GDP, as tax reforms introduced in previous years bring about a fall in the tax/GDP ratio of around 2pp by 2017. We expect broadly balanced budgets in 2017 and 2018.

The government debt/GDP ratio will fall to just under 55% this year, on our estimates. This assumes that the outstanding balance of the bond issued to the CBI at the time of the financial crisis is paid down (ISK65bn), and takes account of the recent repayment of the outstanding balance on the USD bond at its maturity (ISK63bn) and a six-year bond maturing in October (ISK69bn). We expect the debt ratio to then decline further, to 48.0% by 2018.

Fitch uses stylised projections for a sovereign's gross general government debt (GGGD)/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

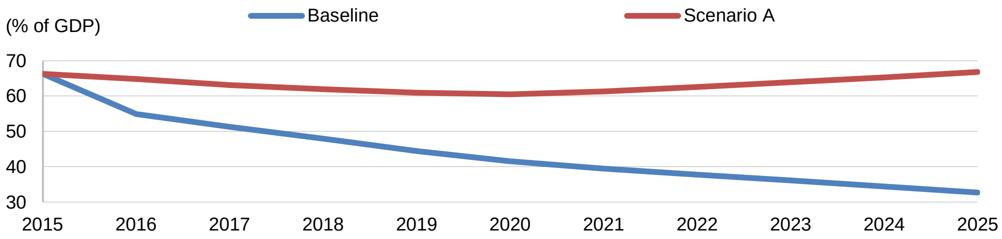
Public Debt Dynamics

Under Fitch's baseline projections, GGGD is expected to fall to 32.7% of GDP by 2025. In an adverse scenario of a sharp depreciation of the exchange rate of one-third, lower GDP growth and higher interest rates, the debt ratio would fall in the near term to around 60%, before picking up to 67% by 2025.

Debt Dynamics: Fitch's Baseline Assumptions

	2015	2016	2017	2018	2019	2020	2025
Gross general government debt (% GDP)	66.2	54.9	51.3	48.0	44.4	41.6	32.7
Primary balance (% of GDP)	3.9	19.1	3.2	3.3	3.3	3.0	2.0
Real GDP growth (%)	4.0	4.0	3.5	3.0	3.0	2.5	2.2
Avg. nominal effective interest rate (%)	5.9	5.9	6.0	6.0	6.0	6.0	6.0
ISK/USD (annual avg.)	131.9	125.9	125.9	125.9	125.9	125.9	125.9
GDP deflator (%)	5.9	3.0	3.8	3.7	3.5	3.0	2.5

Sensitivity Analysis
Gross general government debt



Source: Fitch

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Scenario A	This assumes a one-off depreciation of one-third in 2016, lower growth, higher inflation and a 250bp increase in the marginal interest rate.

Forecast Summary

	2012	2013	2014	2015	2016f	2017f	2018f
Macroeconomic indicators and policy							
Real GDP growth (%)	1.3	4.4	2.0	4.0	4.0	3.5	3.0
Unemployment (%)	6.0	5.4	5.0	4.0	3.2	3.0	3.0
Consumer prices (annual average % change)	6.0	4.2	1.0	0.3	1.0	3.0	3.0
Short-term interest rate (bank policy annual avg.) (%)	4.8	5.0	5.0	4.8	5.8	6.0	6.0
General government balance (% of GDP)	-3.7	-1.8	-0.1	-0.5	15.3	-0.1	0.0
General government debt (% of GDP)	92.6	84.8	82.0	66.2	54.9	51.3	48.0
ISK per USD (annual average)	125.08	122.18	116.77	131.92	125.94	125.94	125.94
Real effective exchange rate (2000 = 100)	75.8	79.3	84.5	86.4	96.8	101.7	105.7
Real private sector credit growth (%)	-14.9	-7.0	-5.7	2.6	1.5	-0.5	-0.5
External finance							
Current account balance (% of GDP)	-4.2	5.7	3.7	4.2	4.4	4.0	3.3
Current account balance plus net FDI (% of GDP)	25.6	5.4	7.9	7.4	7.1	6.5	5.6
Net external debt (% of GDP)	506.9	481.6	412.7	37.7	19.1	6.9	-1.0
Net external debt (% of CXR)	795.3	767.2	697.3	64.2	34.0	12.4	-1.8
Official international reserves including gold (USDbn)	4.2	4.2	4.2	5.0	5.5	5.0	4.5
Official international reserves (months of CXP cover)	5.2	5.8	5.3	6.6	6.7	5.8	4.8
External interest service (% of CXR)	24.3	15.9	14.4	9.6	2.7	2.6	2.5
Gross external financing requirement (% int. reserves)	159.4	551.4	1,084.5	535.3	476.5	89.6	39.1
Real GDP growth (%)							
US	2.2	1.5	2.4	2.4	1.8	2.1	2.3
China	7.7	7.7	7.3	6.9	6.3	6.3	5.8
Eurozone	-0.9	-0.3	0.9	1.7	1.5	1.6	1.6
World	2.5	2.4	2.5	2.5	2.5	2.9	3.0
Oil (USD/barrel)	112.0	108.8	98.9	52.6	35.0	45.0	55.0

Source: Fitch

Fiscal Accounts Summary

(% of GDP)	2013	2014	2015	2016f	2017f	2018f
General government						
Revenue	**42.1**	**45.3**	**42.2**	**57.7**	**41.6**	**41.2**
Expenditure	**44.0**	**45.3**	**42.7**	**42.4**	**41.7**	**41.2**
O/w interest payments	4.6	4.7	4.4	3.8	3.3	3.3
Primary balance	2.7	4.7	3.9	19.1	3.2	3.3
Overall balance	**-1.8**	**-0.1**	**-0.5**	**15.3**	**-0.1**	**0.0**
General government debt	**84.8**	**82.0**	**66.2**	**54.9**	**51.3**	**48.0**
% of general government revenue	201.4	181.0	156.9	95.2	123.2	116.4
Central government deposits	22.7	30.9	19.8	17.5	16.3	15.2
Net general government debt	62.1	51.0	46.5	37.4	35.0	32.7
Central government						
Revenue	**30.9**	**34.2**	**31.9**	**-**	**-**	**-**
O/w grants	0.6	0.5	0.5	-	-	-
Expenditure and net lending	**32.7**	**33.4**	**31.5**	**-**	**-**	**-**
O/w current expenditure and transfers	31.0	31.7	29.9	-	-	-
- Interest	4.2	4.3	4.0	-	-	-
O/w capital expenditure	1.7	1.8	1.9	-	-	-
Current balance	-0.1	2.6	2.1	-	-	-
Primary balance	2.4	5.2	4.5	-	-	-
Overall balance	**-1.8**	**0.8**	**0.4**	**-**	**-**	**-**
Central government debt	76.8	74.2	60.5	-	-	-
% of central government revenues	248.3	216.7	189.3	-	-	-
Central government debt (ISKbn)	**1,451.6**	**1,487.2**	**1,333.7**	**-**	**-**	**-**
By residency of holder						
Domestic	1,274.5	1,177.1	1,110.2	-	-	-
Foreign	177.1	310.1	223.5	-	-	-
By currency denomination						
Local currency	1,061.9	1,071.8	1,026.8	-	-	-
Foreign currency	389.7	415.4	306.9	-	-	-
In USD equivalent (eop exchange rate)	3.4	3.3	2.4	-	-	-
Average maturity (years)	6.3	7.3	6.6	-	-	-
Memo						
Nominal GDP (ISKbn)	1,889.1	2,003.6	2,205.5	2,363.6	2,538.9	2,713.1

Source: Statistics Iceland, IMF, and Fitch estimates and forecasts

External Debt and Assets

(USDbn)	2010	2011	2012	2013	2014	2015
Gross external debt	**121.0**	**111.4**	**102.6**	**107.5**	**98.0**	**29.7**
% of GDP	913.9	759.4	721.9	695.6	570.9	177.8
% of CXR	1,555.6	1,141.8	1,132.5	1,108.1	964.7	302.3
By maturity						
Medium- and long-term	79.3	76.5	71.3	74.7	71.0	18.3
Short -term	41.6	34.8	31.3	32.8	27.0	11.4
% of total debt	34.4	31.3	30.5	30.5	27.5	38.4
By debtor						
Sovereign	**7.3**	**8.6**	**6.4**	**6.3**	**5.3**	**4.5**
Monetary authorities	2.4	3.2	1.5	1.5	0.7	0.3
General government	4.9	5.4	4.9	4.8	4.6	4.2
O/w central government	1.6	1.5	1.6	1.5	2.4	1.7
Banks	**1.8**	**1.3**	**0.9**	**1.3**	**1.2**	**2.2**
Other sectors	**111.9**	**101.5**	**95.2**	**100.0**	**91.5**	**23.1**
Gross external assets (non-equity)	**26.0**	**26.6**	**30.5**	**33.1**	**27.2**	**23.4**
International reserves, incl. gold	5.8	8.6	4.2	4.2	4.1	5.0
Other sovereign assets nes	0.0	0.0	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	3.3	3.6	3.6	4.8	3.2	2.8
Other sector foreign assets	17.8	15.1	23.5	24.7	19.9	15.7
Net external debt	**95.0**	**84.8**	**72.0**	**74.5**	**70.8**	**6.3**
% of GDP	717.5	578.1	506.9	481.6	412.7	37.7
Net sovereign external debt	1.5	0.1	2.2	2.1	1.1	-0.5
Net bank external debt	-0.6	-1.7	-2.0	-2.9	-1.9	-0.5
Net other external debt	94.1	86.3	71.7	75.3	71.6	7.3
Net international investment position	**-85.2**	**-75.6**	**-64.0**	**-65.7**	**-61.5**	**-1.0**
% of GDP	-643.8	-515.2	-450.4	-424.9	-358.1	-5.9
Sovereign net foreign assets	**-1.5**	**-0.1**	**-2.2**	**-2.1**	**-1.1**	**0.5**
% of GDP	-11.6	-0.7	-15.8	-13.5	-6.4	3.2
Debt service (principal & interest)	**21.3**	**26.5**	**15.2**	**24.8**	**48.8**	**24.0**
Debt service (% of CXR)	274.4	271.4	168.3	255.5	480.4	244.2
Interest (% of CXR)	23.2	21.5	24.3	15.9	14.4	9.6
Liquidity ratio (%)	10.7	13.0	23.6	13.5	10.9	14.0
Net sovereign FX debt (% of GDP)	-6.8	-21.5	5.2	3.8	2.3	-5.0
Memo						
Nominal GDP	13.2	14.7	14.2	15.5	17.2	16.7
Inter-company loans	11.7	12.2	11.1	12.0	11.9	8.1

Source: Central Bank of Iceland, IMF, and Fitch estimates and forecasts

Balance of Payments

(USDbn)	2013	2014	2015	2016f	2017f	2018f
Current account balance	**0.9**	**0.6**	**0.7**	**0.8**	**0.8**	**0.7**
% of GDP	5.7	3.7	4.2	4.4	4.0	3.3
% of CXR	9.1	6.2	7.2	7.8	7.2	5.9
Trade balance	**0.1**	**-0.1**	**-0.3**	**-0.3**	**-0.4**	**-0.5**
Exports, fob	4.6	4.9	4.7	5.0	5.4	5.7
Imports, fob	4.5	5.0	4.9	5.3	5.7	6.3
Services, net	**1.2**	**1.2**	**1.4**	**1.5**	**1.5**	**1.6**
Services, credit	4.0	4.3	4.3	4.6	4.9	5.2
Services, debit	2.8	3.1	2.8	3.1	3.3	3.6
Income, net	**-0.2**	**-0.3**	**-0.2**	**-0.1**	**-0.1**	**-0.1**
Income, credit	1.1	0.9	0.8	0.8	0.8	0.8
Income, debit	1.3	1.2	1.0	0.9	0.9	0.9
O/w: Interest payments	1.5	1.5	0.9	0.3	0.3	0.3
Current transfers, net	**-0.1**	**-0.1**	**-0.3**	**-0.3**	**-0.3**	**-0.3**
Capital and financial accounts						
Non-debt-creating inflows (net)	-0.6	-0.3	4.3	1.9	1.4	0.9
O/w equity FDI	-0.6	-0.2	4.1	2.0	1.5	1.0
O/w portfolio equity	0.0	-0.1	0.2	-0.1	-0.1	-0.1
O/w other flows	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves	0.0	0.3	1.1	0.0	0.0	0.0
Gross external financing requirement	23.1	46.0	22.4	24.0	4.9	1.9
Stock of international reserves, incl. gold	4.2	4.2	5.0	5.5	5.0	4.5

Source: Central Bank of Iceland, IMF and Fitch estimates and forecasts

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