Iceland

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	A–
Short-Term IDR	F2

Local Currency

Long-Term IDR	A–
Short-Term IDR	F1
Country Ceiling	A–

Outlooks

Foreign-Currency Long-Term IDR	Positive
Local-Currency Long-Term IDR	Positive

Financial Data

Iceland

(USDm)	2017
GDP	23,482.2
GDP per head (USD 000)	68.9
Population (m)	0.3
International reserves	9,201.6
Net external debt (% GDP)	21.1
Central government total debt (% GDP) (2016)	46.4
CG foreign-currency debt (2016)	1,797
CG domestically issued debt (ISKm) (2016)	971,632

Related Research

Global Economic Outlook (June 2017)

Analysts

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Key Rating Drivers

Ratings Upgraded: Fitch Ratings has upgraded Iceland's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) to 'A−' from 'BBB+', with Positive Outlooks. This reflected the considerable reduction in external vulnerability in recent years, the liberalisation of capital controls, rapid government debt reduction, and robust economic growth.

External Vulnerability Reduced: Strong current account surpluses and capital inflows since 2013 have strengthened external finances. The krona has been strengthening, despite the virtually complete liberalisation of capital controls between October 2016 and March 2017, appreciating by 20.1% yoy against the USD, and 17.3% against the EUR at end-June 2017, allowing for a build-up of FX reserves to 9.2 months of current external payments at end-2016.

Falling Net External Debt: The current account surplus rose to 7.9% of GDP in 2016 (4.5% of GDP forecast at the last review), due to stronger-than-expected tourism receipts. Robust tourism activity is expected to persist over the forecast horizon, supporting a large current account surplus, moderating to 6.5% of GDP by 2019. Net external debt decreased further to 29% of GDP and is expected to turn negative by 2018, in line with the 'A' median.

Fast Debt Reduction: Gross general government debt (GGGD)/GDP fell to 54.0% at end-2016, from its 2011 peak of 95.1%. Fitch forecasts debt/GDP to fall to 44.0% by end-2017, below the 'A' median of 51.4%. Debt reduction is driven by strong economic growth, the windfall from stability contributions, fiscal surpluses and debt buybacks, and is in line with the government's strategy in its five-year fiscal policy statement.

Robust Economic Growth: Real GDP growth in 2016 was strong at 7.2%, driven by solid growth in tourism, private investments and consumption, supported by a recovery in construction to meet strong tourism demand, strong wage increases, lower unemployment, an appreciating krona and higher house prices. Fitch has revised up its 2017 growth forecast to 5.6% and expects slower growth of 3.7% by 2019. However, domestic cost pressures and a higher real exchange rate could lead to overheating and expose the economy to the risk of poor tourism activity.

High Income, Structural Factors: Iceland has very high income per capita, forecast to be USD68,900 in 2017, making it more aligned with the 'AAA' median of USD51,977. The country's performance on the measures of governance, human development and ease of doing business is also consistent with that of 'AAA' and 'AA' rated countries.

Rating Sensitivities

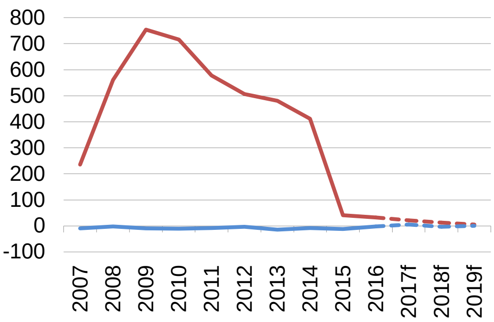
Resilience to External Shocks: Resilience of the economy to external shocks, in the context of a more open capital account, could lead to a positive rating action. In contrast, excessive capital outflows leading to external imbalances and pressures on the exchange rate would be negative.

Balanced Economic Growth: Continued economic growth without excessive macroeconomic imbalances would support uplift to the ratings. Evidence of overheating in the domestic economy, for example through wage-price spirals, inflation overshoots, and adverse effects on household and corporate balance sheets, would weigh on the ratings.

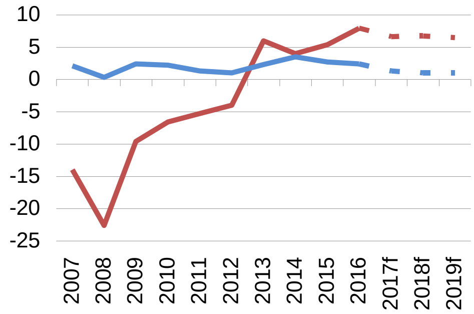
Public Debt Reduction: Continued falls in the public debt ratio, supported by prudent fiscal policy, would be positive for the ratings. Conversely, a weakened commitment to medium-term fiscal consolidation could lead to a negative rating action.

Peer Comparison

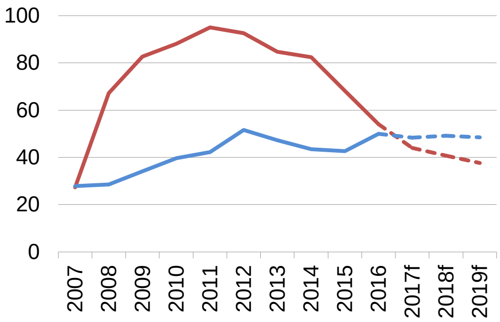
Net External Debt
% of GDP



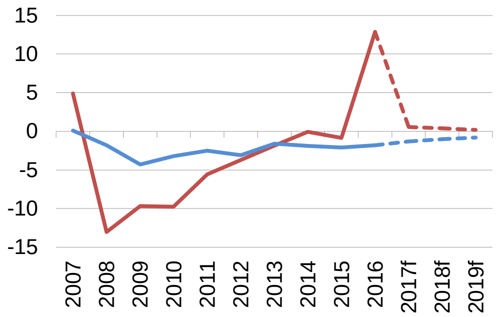
Current Account Balance
% of GDP



General Government Debt
% of GDP

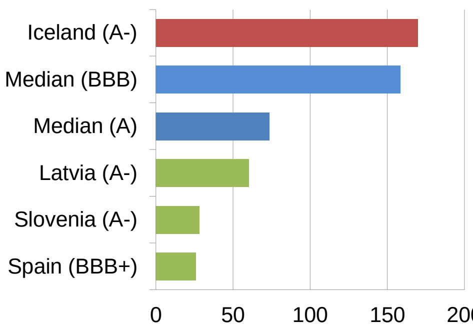


General Government Balance
% of GDP

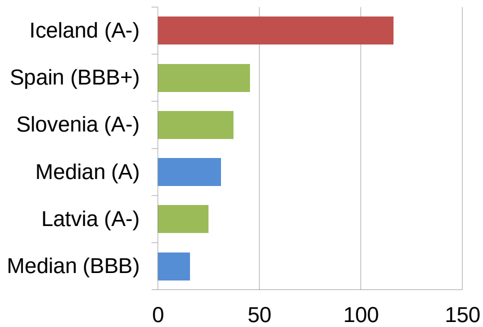


Iceland Medians

International Liquidity Ratio, 2018
%



GDP per capita Income, 2017e
At market exchange rates, USA=100



Related Criteria

Sovereign Rating Criteria (July 2017)
Country Ceilings Criteria (July 2017)

Peer Group

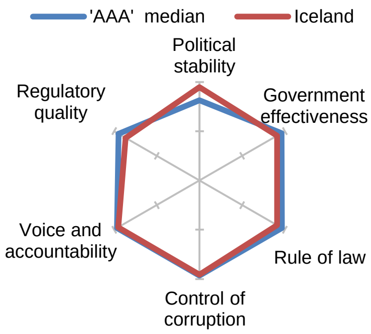
Rating	Country
A	Ireland
	Japan
	Malta
	Ras Al Khaimah
A−	**Iceland**
	Latvia
	Lithuania
	Malaysia
	Poland
	Slovenia
BBB+	Mexico
	Peru
	Spain
	Thailand

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
7 Jul 2017	A−	A−
22 Jul 2016	BBB+	BBB+
24 Jul 2015	BBB+	A−
14 Feb 2013	BBB	BBB+
17 Feb 2012	BBB−	BBB+
5 Jan 2010	BB+	BBB+
8 Oct 2008	BBB−	A−
30 Sep 2008	A−	AA
15 Mar 2007	A+	AA+
3 Feb 2000	AA−	AAA

Governance Indicators

Percentile rank



Source: World Bank

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 'A' category
Source: Fitch

Strengths

- Iceland has very high income per capita that is more aligned with the 'AAA' median (2017 forecast of USD68,900 against the 'AAA' median of USD51,977).
- Iceland's performance on the measures of Governance, Human Development and Ease of Doing Business is consistent with that of 'AAA' and 'AA' rated countries.
- The current account has been in surplus since 2013, and at a 2017 forecast of 6.6% of GDP, the surplus is large relative to the 'A' median of 1.4% of GDP. The continued appreciation of the krona in 2016 allowed for a build-up in FX reserves to 9.2 months of current external payments.
- Iceland has recovered from the economic disruption following the financial crisis in 2008/2009. The unemployment rate has fallen to 3.0% from its peak of 7.6% in 2010.

Weaknesses

- Capital controls that prevented large-scale capital outflows have mostly been lifted. However, 3.3% of GDP worth of offshore krona assets remained held in restricted accounts at end-June 2017 (down from over 40% of GDP at the height of the crisis).
- Gross external debt (116% of GDP in 2017) is much higher than the 'A' median (79.2%), and net external debt is also higher at 2.1% of GDP ('A' median: −3.3%).
- Public finances are now less of a risk, following the sharp reduction in public debt/GDP to 44.0% in 2017 from 92.5% in 2012. However, Iceland's public foreign-currency debt is 22.5% of total government debt ('A' median: 17.8%); volatility of revenues/GDP is high; and the share of maturing central government debt is high relative to the 'A' median.
- The small size of the economy and high commodity export dependence (37.2% of current external receipts against 14.3% for the 'A' median) make Iceland vulnerable to terms-of-trade shocks.

Local-Currency Rating

Iceland's credit profile does not support a notching up of the Long-Term Local-Currency IDR above the Long-Term Foreign-Currency IDR. In Fitch's view, neither of the two key factors that support upward notching of the Long-Term Local-Currency 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 currently 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 curtailed cross-border capital portfolio flows and trapped a substantial amount of non-resident assets in local-currency debt instruments.

Strengths and Weaknesses: Comparative Analysis

2017	Iceland A−	A Median[a]	BBB Median[a]	Latvia A−	Slovenia A−	Spain BBB+
Macroeconomic performance and policies						
Real GDP (5yr average % change)	4.6	2.9	3.0	2.5	2.0	1.8
Volatility of GDP (10yr rolling SD)	4.2	3.0	2.6	6.0	4.0	2.5
Consumer prices (5yr average)	1.7	1.3	2.1	0.8	0.8	0.5
Volatility of CPI (10yr rolling SD)	5.4	1.8	1.9	4.7	1.9	1.6
Unemployment rate (%)	3.0	6.2	5.7	8.3	7.3	17.5
Type of exchange rate regime	Managed float	n.a.	n.a.	EMU	EMU	EMU
Dollarisation ratio (% of bank deposits)	13.6	10.7	34.4	0.0	2.6	-
REER volatility (10yr rolling SD)	11.0	4.8	4.2	4.7	2.8	3.1
Structural features						
GDP per capita (USD, mkt exchange rates)	68,900	19,955	10,237	13,991	21,655	26,915
GNI per capita (PPP, USD, latest)	42,530	27,714	18,290	23,150	29,441	33,767
GDP (USDbn)	23.5	n.a.	n.a.	27.3	44.8	1,248.8
Human development index (percentile, latest)	91.9	81.2	66.8	75.9	87.1	86.6
Governance indicator (percentile, latest)[b]	92.3	76.5	58.0	73.8	76.5	73.9
Broad money (% GDP)	37.0	79.6	69.3	47.5	55.1	108.3
Default record (year cured)[c]	-	n.a.	n.a.	-	1996	-
Ease of doing business (percentile, latest)	89.9	86.2	71.9	93.1	84.6	83.6
Trade openness (avg. of CXR + CXP % GDP)	46.7	70.4	48.9	71.1	82.1	39.4
Gross domestic savings (% GDP)	28.5	26.5	23.8	20.1	29.2	23.2
Gross domestic investment (% GDP)	21.1	22.1	22.0	21.7	20.0	20.3
Private credit (% GDP)	85.7	74.5	57.0	44.8	44.9	105.9
Bank systemic risk indicators[d]	-/1	n.a.	n.a.	-/1	5/1	4/1
Bank system capital ratio (% assets)	27.6	18.3	15.9	0.0	-	15.1
Foreign bank ownership (% assets)	20.0	61.0	29.0	0.0	45.9	7.6
Public bank ownership (% assets)	70.6	16.4	13.5	0.0	42.9	8.5
External finances						
Current account balance + net FDI (% GDP)	8.8	1.4	0.7	1.0	7.0	0.5
Current account balance (% GDP)	6.6	1.6	-1.8	-0.1	5.0	2.0
Net external debt (% GDP)	21.1	0.8	3.2	37.3	19.2	83.6
Gross external debt (% CXR)	231.4	123.2	119.5	215.3	123.4	430.1
Gross sovereign external debt (% GXD)	8.9	27.9	32.8	41.2	59.8	48.7
Sovereign net foreign assets (% GDP)	19.2	7.0	2.4	-14.4	-2.3	-59.0
Ext. interest service ratio (% CXR)	0.7	3.1	4.0	1.1	3.2	3.7
Ext. debt service ratio (% CXR)	7.6	13.5	12.5	32.4	13.1	50.8
Foreign exchange reserves (months of CXP)	8.2	3.5	7.0	1.9	0.5	1.8
Liquidity ratio (latest)[e]	221.4	68.2	169.4	60.4	28.3	26.0
Share of currency in global reserves (%)	0	n.a.	n.a.	20	20	19
Commodity export dependence (% CXR, latest)	37.2	14.4	17.7	29.6	14.2	17.5
Sovereign net foreign currency debt (% GDP)	-19.6	-4.8	-7.2	62.9	9.4	-5.4
Public finances[f]						
Budget balance (% GDP)	0.6	-1.3	-2.7	-0.5	-1.6	-3.2
Primary balance (% GDP)	3.8	0.2	-0.8	0.4	0.6	-0.5
Gross debt (% revenue)	106.3	135.6	160.9	103.2	173.1	258.7
Gross debt (% GDP)	44.0	48.8	41.2	38.0	77.5	98.8
Net debt (% GDP)	36.6	45.0	32.1	34.0	70.8	95.1
Foreign currency debt (% total debt)	22.5	17.8	39.6	24.7	15.3	0.3
Interest payments (% revenue)	7.9	4.2	7.0	2.3	4.9	6.9
Revenues and grants (% GDP)	41.4	35.3	29.0	36.8	44.8	38.2
Volatility of revenues/GDP ratio	13.1	4.4	6.3	2.9	2.7	3.6
Central govt. debt maturities (% GDP)	9.7	4.7	3.9	5.3	7.5	16.1

[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
[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

Key Credit Developments

Virtually All Capital Controls Lifted

On 21 October 2016, the restrictions on outward FDI were eased, allowing households to make single real estate purchases abroad each year, and allowing parties to transfer funds overseas for portfolio investments and debt servicing up to a limit of ISK30 million (USD264,000). On 1 January 2017, the restrictions were eased further, and virtually all remaining capital controls in Iceland were removed in 12 March. Since the controls were lifted, there have been no indications of significant outflows of capital from the economy, and the krona appreciated by 19.4% against the euro over 1H17.

On 12 March, the central bank also concluded an agreement with owners of offshore krona assets subject to special restrictions in the region of ISK90 billion at the exchange rate of 137.5 EUR/ISK and invited remaining offshore krona holders to make an agreement with the bank on the same terms. In the two-step process, the central bank agreed a purchase of a total of ISK112.4 billion (4.2% of GDP) at the expiration of the offer on 15 June, resulting in a fall in the remaining stock of offshore krona assets to ISK88 billion (3.3% of GDP).

Macroeconomic Recovery Driven by Tourism and Domestic Demand

Real GDP growth was strong in 2016 at 7.2%, driven by robust growth in tourism, private investments and private consumption. Private investments growth was mainly driven by a renewed surge in construction activity as real estate prices rose to meet the strong increase in tourism demand. This brisk rise in construction activity to meet the increase in demand for tourist accommodation is experiencing some overheating, and is vulnerable to the risk of a contraction in tourist arrivals and demand.

Tourist arrivals grew by 40.1% yoy in 2016, accelerating further in the off-peak season of the first five months of 2017 to grow by 47.5% yoy. The rise in tourist demand is driven primarily by US tourists (25% of 2016 arrivals) and the UK market (19% of 2016 arrivals), and is vulnerable to downside risk from weaker UK growth and the appreciating krona.

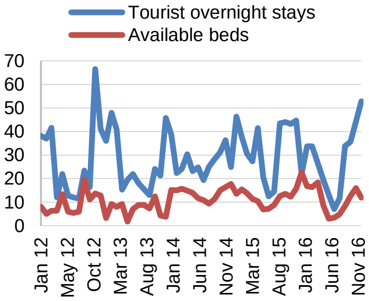
The strong growth dynamic was also reflected in the labour market, with 40% of companies reporting rising labour shortages (93% in the overheated construction sector). Firms were meeting the shortages by relying on foreign workers, helping to moderate the upward pressure on wage growth. These effects were particularly evident in the construction sector, which is experiencing significant growth.

Wages grew by an extraordinary 9.1% yoy in 2016 due to strong wage demands beginning with the medical profession. Along with the appreciation of the krona and rising house prices, net household wealth has risen and supported robust private consumption growth. Collective wage negotiations in 2017 have thus far indicated more moderate general wage rises of 4.5%-5.0% yoy, with the wage index moderating to 7.3% yoy in June 2017. Implementation of a set of new wage negotiation guidelines anchored on competitiveness and promoting economic stability in the 'SALEK agreement' between social partners will also be tested in the 2018 wage negotiations.

Domestic cost pressures resulting from above-trend growth persisting throughout 1H17 (including strong wage increases with the 2016 wage negotiations) supported consumer price inflation in 1H17. This was more than offset by low import prices partly due to the appreciating krona in 2016 and in 1Q17, which led to price declines for air travel since 2016 and food prices in 1H17. Headline HICP inflation hence fell in recent months to −3.3% yoy in June from an annual average of 0.8% yoy in 2016. The resulting stronger real exchange rate from the robust tourism service exports could potentially impair competitiveness in the other export industries.

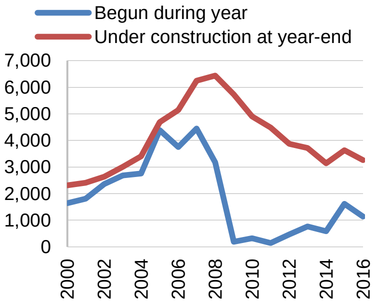
National CPI, the target for monetary policy, on the other hand was more robust at 1.5% yoy in June. The central bank has cut the monetary policy rate by a total of 125bp in the last 12

Tourism Activity and Establishments Very Strong
(% chg yoy)



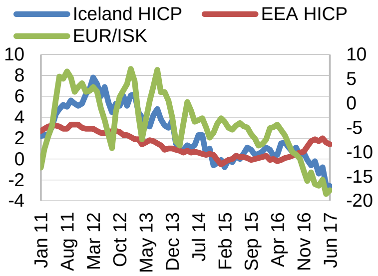
Source: Statistics Iceland

Recent Recovery in Construction
(No. of dwellings)



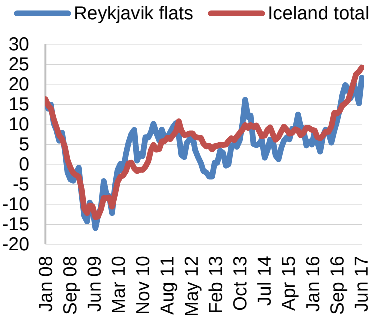
Source: Statistics Iceland

Inflation Fell Partly Due to Strong Krona
(% chg yoy)



Source: Eurostat, Statistics Iceland, Sedlabanki months to 4.5% over successive meetings to suppress real interest rates from rising. Fitch expects that further cuts in the policy rate are likely.

House Prices Overheating
(% chg yoy)



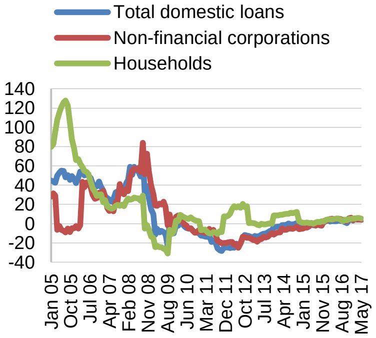
Source: Statistics Iceland

Residential Real Estate Overheating

Real estate prices are exhibiting some signs of overheating, with residential property prices rising by 14.7% yoy at end-2016 and accelerating to 24.2% yoy in July 2017. The robust price dynamic is broadly similar inside and outside the capital, and is a result of strong demand due to robust activity in the tourism sector, while growth in supply lags behind with a recovering construction sector.

Nominal house prices have exceeded pre-crisis 2007 levels by 1.6x, but risks are mitigated by dynamic wage developments in recent years. The resultant rise in the ratio of house prices to wages is hence much weaker than during the housing crisis in 2008. Furthermore, recent strong construction activity and real estate price dynamics have not been fuelled by a corresponding increase in credit growth among non-financial corporations or households. Total credit to the non-financial private sector fell to 158% of GDP at end-2016 (78% of GDP for households), from a peak of c.360% of GDP at end-2008.

Credit Growth Moderate
(% chg yoy)



Source: Sedlabanki

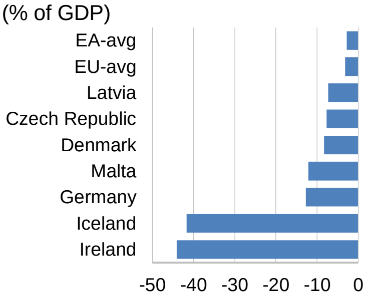
Public Finances Improving Due To Cyclical Recovery

The current government, formed in January 2017, consists of a coalition between the Independence, Reform and Bright Future parties, with a slim majority in parliament of just one seat. The Independence party is the largest party in the coalition, and continues the previous coalition government's commitment to debt reduction in the medium-term fiscal plans.

Public finance estimates for 2016 are distorted by roughly ISK384.3 billion (around 16% of GDP) of stability contributions paid by the estates of the failed banks at end-2015, which accrued to general government receipts for 1Q16. The resultant general government balance was a surplus of 12.9% of GDP in 2016. Fitch forecasts the fiscal surplus to fall to 0.2% of GDP in 2017 and remain stable over the forecast horizon, implying an improvement from the underlying fiscal deficits before 2017. The improvement stems primarily from the improvement in the economic situation.

The new government plans for a broadening of the scope for the VAT standard rate from July 2018 (implying a rise in tourism-related VAT rates) and a reduction in the VAT rate to 22.5% from 24% from January 2019. The social security contribution rate is also expected to be reduced, but the extent has yet to be specified. The carbon tax is also to be raised by 100% from January 2018, and further policy action in green taxation is expected to be considered. These measures are expected to raise tax revenues by 0.6% of GDP in 2018 and 0.1% of GDP in 2019, but will only be included in the 2018 and 2019 budgets.

Large GG Debt/GDP Reduction
2016 - post-crisis peak
(% of GDP)



Source: Eurostat, Datastream

Public Debt and Government Guarantees on the Decline

GGGD/GDP has been declining from its peak of 92.5% at end-2012 to 53.4% at end-2016. Liquid funds from the stability contributions will be used to pay down debt in 2017, partly deriving from the planned sale of the government's 13% stake in Arion Bank, resulting in debt/GDP falling further to 44.0% by end-2017. In March 2017, the government bought back ISK100 billion (around 4% of GDP) of its USD bonds that were issued in 2012, resulting in ISK100 billion of foreign-currency debt remaining.

Contingent liabilities in the form of government guarantees continue to be large at 43% of GDP, with a majority 79% comprising guaranteed loans by the Housing Financing Fund to households. Improved economic conditions since the crisis have led to the fund's financial performance producing positive results in the last two years, while the fund has ceased new loans since 2012, leading to a gradual decline in its loan portfolio.

Fitch uses stylised projections for a sovereign's 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

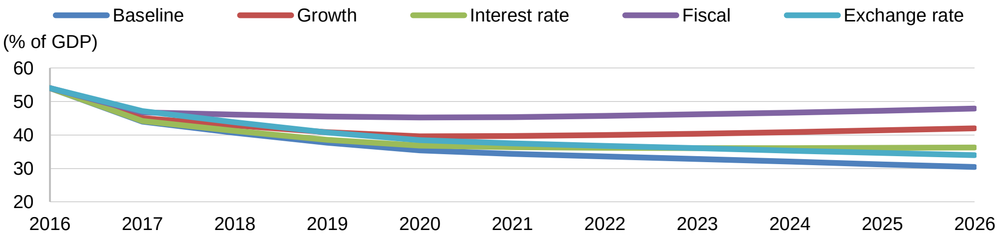
According to Fitch's baseline projections, GGGD should continue falling gradually to 38.7% of GDP by end-2020. The main risk to our debt projections is stronger-than-expected nominal GDP growth dynamics. Further sale of the government's stakes in the banks could also lead to a sharper reduction in public debt/GDP.

Debt Dynamics: Fitch's Baseline Assumptions

	2016	2017	2018	2019	2020	2021	2026
Gross general government debt (% GDP)	54.0	44.0	40.7	37.7	35.4	34.4	30.5
Primary balance (% of GDP)	17.0	3.8	3.7	3.5	3.0	2.0	2.0
Real GDP growth (%)	7.2	5.6	4.2	3.7	3.0	2.5	2.0
Avg. nominal effective interest rate (%)	6.7	6.5	6.3	6.2	6.2	6.3	7.0
ISK/USD (annual avg.)	120.81	112.82	112.82	112.82	112.82	112.82	112.82
GDP deflator (%)	2.0	3.6	2.8	3.6	2.8	2.5	2.5

Sensitivity Analysis

Gross general government debt



Source: Fitch debt dynamics model

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 2.4% lower (half standard deviation lower)
Interest rate	marginal interest rate 250bp higher
Fiscal	no change in primary balance from 2017 level of 1.0% of GDP
Exchange rate	20% devaluation at end-2017

Forecast Summary

	2013	2014	2015	2016	2017f	2018f	2019f
Macroeconomic indicators and policy							
Real GDP growth (%)	4.1	1.9	4.1	7.2	5.6	4.2	3.7
Unemployment (%)	5.4	5.0	4.0	3.0	3.0	3.0	3.0
Consumer prices (annual average % change)	4.2	1.0	0.3	0.8	2.0	2.7	3.0
Short-term interest rate (bank policy annual avg.) (%)	5.0	5.0	4.8	5.5	5.5	5.5	6.5
General government balance (% of GDP)	-1.8	-0.1	-0.8	12.9	0.6	0.4	0.2
General government debt (% of GDP)	84.7	82.4	68.1	54.0	44.0	40.7	37.7
ISK per USD (annual average)	122.2	116.8	131.9	120.8	112.8	112.8	112.8
Real effective exchange rate (2000 = 100)	79.2	84.5	86.4	96.6	101.5	105.5	110.8
Real private sector credit growth (%)	-7.0	-5.7	2.6	3.3	1.5	0.3	1.0
External finance							
Current account balance (% of GDP)	6.0	4.0	5.4	7.9	6.6	6.7	6.5
Current account balance plus net FDI (% of GDP)	5.7	8.2	9.6	11.5	8.8	8.7	8.4
Net external debt (% of GDP)	481.0	412.2	41.1	32.5	21.1	13.0	5.5
Net external debt (% of CXR)	762.9	693.8	69.0	59.3	42.2	25.8	11.0
Official international reserves including gold (USDm)	4,238	4,176	5,041	7,226	6,921	7,904	8,963
Official international reserves (months of CXP cover)	5.8	5.3	6.7	9.2	8.2	8.6	9.0
External interest service (% of CXR)	15.9	14.3	9.4	0.9	0.7	0.7	0.7
Gross external financing requirement (% int. reserves)	596.1	996.3	511.2	-23.9	-10.3	2.1	-9.9
Real GDP growth (%)							
US	1.7	2.4	2.6	1.6	2.2	2.5	2.2
China	7.8	7.3	6.9	6.7	6.5	5.9	5.8
Eurozone	-0.3	1.2	2.0	1.8	2.0	1.8	1.4
World	2.6	2.8	2.7	2.5	2.9	3.1	3.0
Oil (USD/barrel)	108.8	98.9	53.0	45.1	52.5	55.0	60.0

Source: Fitch

Fiscal Accounts Summary

(% of GDP)	2014	2015	2016	2017f	2018f	2019f
General government						
Revenue	**45.2**	**42.0**	**58.4**	**41.4**	**41.2**	**42.2**
Expenditure	**45.3**	**42.9**	**45.6**	**40.8**	**40.8**	**42.0**
O/w interest payments	4.7	4.6	4.2	3.3	3.3	3.3
	-	-	-	-	-	-
Primary balance	4.7	3.8	17.0	3.8	3.7	3.5
Overall balance	**-0.1**	**-0.8**	**12.9**	**0.6**	**0.4**	**0.2**
General government debt	**82.4**	**68.1**	**54.0**	**44.0**	**40.7**	**37.7**
% of general government revenue	182.3	162.0	92.5	106.3	98.7	89.3
	-	-	-	-	-	-
Central government deposits	30.9	19.7	11.8	7.4	6.9	6.4
Net general government debt	51.5	48.4	42.3	36.6	33.8	31.3
Central government						
Revenue	**34.2**	**31.3**	**47.5**	**-**	**-**	**-**
O/w grants	0.5	0.5	0.5	-	-	-
Expenditure and net lending	**33.4**	**31.5**	**34.6**	**-**	**-**	**-**
O/w current expenditure and transfers	31.6	29.6	32.8	-	-	-
- Interest	4.3	4.2	3.7	-	-	-
O/w capital expenditure	1.8	1.9	1.8	-	-	-
Current balance	2.6	1.6	14.6	-	-	-
Primary balance	5.1	3.9	16.6	-	-	-
Overall balance	**0.8**	**-0.3**	**12.8**	**-**	**-**	**-**
Central government debt	74.1	60.2	46.4	-	-	-
% of central government revenues	216.7	192.6	97.7	-	-	-
Central government debt (ISKm)	**1,487,213**	**1,333,689**	**1,122,878**	**-**	**-**	**-**
By residency of holder	-	-	-			
Domestic	1,177,111	1,110,189	971,632	-	-	-
Foreign	310,102	223,500	151,246	-	-	-
By currency denomination	-	-	-			
Local currency	1,071,792	1,026,779	920,193	-	-	-
Foreign currency	415,421	306,910	202,685	-	-	-
In USD equivalent (eop exchange rate)	3,274	2,368	1,797	-	-	-
Average maturity (years)	7.3	6.6	6.4	-	-	-
Memo						
Nominal GDP (ISKm)	2,005,942	2,214,086	2,421,958	2,649,261	2,836,873	3,047,577

Source: Ministry of Finance and Fitch estimates and forecasts

External Debt and Assets

(USDm)	2014	2015	2016	2017f	2018f	2019f
Gross external debt	**97,967.9**	**30,429.5**	**25,639.8**	**27,175.7**	**30,367.3**	**33,560.9**
% of GDP	570.3	181.3	127.9	115.7	120.8	124.2
% of CXR	959.8	304.4	233.7	231.4	239.8	245.6
By maturity						
Medium- and long-term	70,988.2	19,015.7	24,026.9	25,466.2	28,457.0	31,449.7
Short -term	26,979.7	11,413.8	1,612.9	1,709.5	1,910.3	2,111.2
% of total debt	27.5	37.5	6.3	6.3	6.3	6.3
By debtor						
Sovereign	**5,275.4**	**4,496.7**	**3,881.5**	**2,415.8**	**2,355.8**	**2,295.8**
Monetary authorities	697.8	287.2	408.3	93.3	33.3	-26.7
General government	4,578	4,209	3,473	2,323	2,323	2,323
O/w central government	2,444	1,725	1,341	0	0	0
Banks	**1,179.8**	**2,172.3**	**4,209.7**	**4,310.3**	**4,410.9**	**4,511.5**
Other sectors	**91,512.7**	**23,760.5**	**17,548.5**	**20,449.5**	**23,600.5**	**26,753.5**
Gross external assets (non-equity)	27,152.2	23,529.7	19,130.5	22,219.8	27,102.2	32,061.7
International reserves, incl. gold	4,175.8	5,040.7	7,226.4	6,921.4	7,903.9	8,963.4
Other sovereign assets	0.0	0.0	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	3,160.9	2,795.3	2,345.7	2,345.7	2,345.7	2,345.7
Other sector foreign assets	19,885.0	15,829.2	9,700.5	12,472.1	15,651.2	18,830.3
Net external debt	**70,815.7**	**6,899.8**	**6,509.3**	**4,955.9**	**3,265.1**	**1,499.1**
% of GDP	412.2	41.1	32.5	21.1	13.0	5.5
Net sovereign external debt	1,098.4	-540.8	-3,348.8	-4,503.8	-5,546.2	-6,665.8
Net bank external debt	-1,910.4	-490.6	2,010.1	1,482.3	862.0	241.7
Net other external debt	71,627.7	7,931.3	7,848.0	7,977.4	7,949.3	7,923.2
Net international investment position	**-61,443.5**	**-867.0**	**382.8**	**-**	**-**	**-**
% of GDP	-357.7	-5.2	1.9	-	-	-
Sovereign net foreign assets	**-1,097.0**	**542.3**	**3,350.4**	**4,505.4**	**5,547.8**	**6,667.4**
% of GDP	-6.4	3.2	16.7	19.2	22.1	24.7
Debt service (principal & interest)	**44,363.6**	**23,191.2**	**479.2**	**894.6**	**1,923.9**	**1,084.2**
Debt service (% of CXR)	434.6	232.0	4.4	7.6	15.2	7.9
Interest (% of CXR)	14.3	9.4	0.9	0.7	0.7	0.7
Liquidity ratio (%)	11.5	14.2	58.5	221.4	170.1	213.3
Net sovereign FX debt (% of GDP)	2.3	-5.0	-18.7	-19.6	-22.2	-24.6
Memo						
Nominal GDP	17,179.0	16,783.7	20,047.3	23,482.2	25,145.1	27,012.7
Inter-company loans	11,931.0	8,812.7	10,072.8	10,473.8	10,874.8	11,276.8

Sources: Central Bank, IMF, World Bank and Fitch estimates and forecasts

Balance of Payments

(USDm)	2014	2015	2016	2017f	2018f	2019f
Current account balance	**683.8**	**904.0**	**1,589.2**	**1,555.4**	**1,692.9**	**1,768.0**
% of GDP	4.0	5.4	7.9	6.6	6.7	6.5
% of CXR	6.7	9.0	14.5	13.2	13.4	12.9
Trade balance	**-88.4**	**-269.1**	**-840.2**	**-726.5**	**-890.9**	**-1,123.3**
Exports, fob	4,867.1	4,657.3	4,472.5	4,772.2	5,130.1	5,514.8
Imports, fob	4,955.5	4,926.3	5,312.7	5,498.6	6,021.0	6,638.2
Services, net	**1,162.4**	**1,532.1**	**2,154.9**	**2,351.0**	**2,653.0**	**2,961.5**
Services, credit	4,282.1	4,353.9	5,371.5	5,841.0	6,404.6	7,022.7
Services, debit	3,119.6	2,821.8	3,216.5	3,489.9	3,751.7	4,061.2
Income, net	**-282.5**	**-77.0**	**423.1**	**79.5**	**79.5**	**78.5**
Income, credit	921.3	874.6	979.5	979.5	979.5	979.5
Income, debit	1,203.8	951.6	556.4	900.0	900.0	901.0
O/w: Interest payments	1,457.8	941.1	96.0	80.9	85.7	95.8
Current transfers, net	-107.7	-282.0	-148.6	-148.6	-148.6	-148.6
Capital and financial accounts						
Non-debt-creating inflows (net)	-326.3	3,802.6	1,939.7	-2.0	-2.0	-2.0
O/w equity FDI	-192.6	3,628.2	630.5	100.0	100.0	100.0
O/w portfolio equity	-120.1	185.6	1,321.3	-90.0	-90.0	-90.0
O/w other flows	-13.6	-11.2	-12.0	-12.0	-12.0	-12.0
Change in reserves	303.4	1,087.8	2,389.4	-310.7	982.4	1,059.6
Gross external financing requirement	42,222.0	21,346.1	-1,206.0	-741.7	145.4	-779.6
Stock of international reserves, incl. gold	**4,175.8**	**5,040.7**	**7,226.4**	**6,921.4**	**7,903.9**	**8,963.4**

Sources: IMF and Fitch estimates and forecasts

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