Iceland

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1

Local Currency

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

Outlooks

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

Financial Data

Iceland

(USDm)	2018
GDP	25,890.3
GDP per head (USD 000)	75.1
Population (m)	0.3
International reserves	6,547.9
Net external debt (% GDP)	22.5
Central government total debt (% GDP)[a]	35.7
CG foreign-currency debt[a]	1,115.9
CG domestically issued debt (ISKm)[a]	794,526.0

[a] 2017 figures

Rating Derivation

Component	Outcome
Sovereign Rating Model (SRM)[a]	**A+**
Qualitative Overlay (QO)	**-1**
Macroeconomic	0
Structural features	0
Public finances	0
External finances	-1
Long-Term Foreign-Currency IDR (SRM + QO)	**A**

Source: Fitch

Related Research

Global Economic Outlook (June 2018)

Western Europe Sovereign Credit Overview – 2Q18 (April 2018)

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Key Rating Drivers

Strong Structurals, Weak Externals: Iceland's 'A' IDRs balance very high income per capita and strong performance on governance, human development and doing business indicators against high commodity export dependence, vulnerability to external shocks and experience of macroeconomic and financial volatility.

Externals Improved, Still Weak: Net external debt fell sharply to 30% of GDP in 2017, from a 751% peak in 2009 as the resolution of the failed banks' estates reduced external liabilities. Despite this and the krona's resilience to the lifting of virtually all capital controls in March 2017, high commodity exports (35% of CXR) and a lack of diversification in the export base make the economy vulnerable to terms-of-trade shocks and the krona sensitive to capital outflows.

Large Current Account Surpluses: Strong current account surpluses (five-year average of 5.3% of GDP), driven by favourable terms of trade and robust tourism, have led to a strong krona. Slowing tourism, robust domestic demand and higher oil prices will narrow the surplus.

Pension Rebalancing Risks Outflows: Icelandic pension funds expect to rebalance portfolios to diversify asset holdings (c.154% of GDP in 2017) internationally (currently only 26% of assets invested abroad) after years of capital controls. This could result in strong capital outflows as the interest rate differential between domestic and global assets narrows.

Small Fiscal Surpluses: Public finances are slightly stronger than the medians, with the general government surplus at 1.5% of GDP and forecast to remain at an average of 1.2% of GDP in 2018-2019. The new coalition government targets smaller surpluses and continues to exercise pro-cyclical fiscal policy within the organic budget law's fiscal rules. There is also political pressure to raise expenditure in the lead-up to tripartite wage negotiations at end-2018.

Public Debt Reduced to Median: Gross general government debt/GDP fell below the 'A' median to 42.4% in 2017 and should stabilise at 30% by 2025. Debt reduction was driven mainly by financial stability contributions from the old banks' estates, further accelerated by high nominal GDP growth averaging 7.4% in 2013-2017 and the strong krona. Debt interest payments are much higher than the 'A' medians, and 3.5% of GDP in offshore ISK assets (half in state bonds) are restricted from converting to non-ISK assets at the market rate.

Strong Cyclical Growth Slowing: Real GDP growth in Iceland is much stronger than the median, averaging 4.4% in 2013-2017. Growth should slow to 3.3% in 2018 and 2.9% in 2019 as the strong ISK slows tourism. We expect HICP inflation to rise to 2.0% by 2020 (2017: −1.6%) as ISK pass-through fades and oil prices rise.

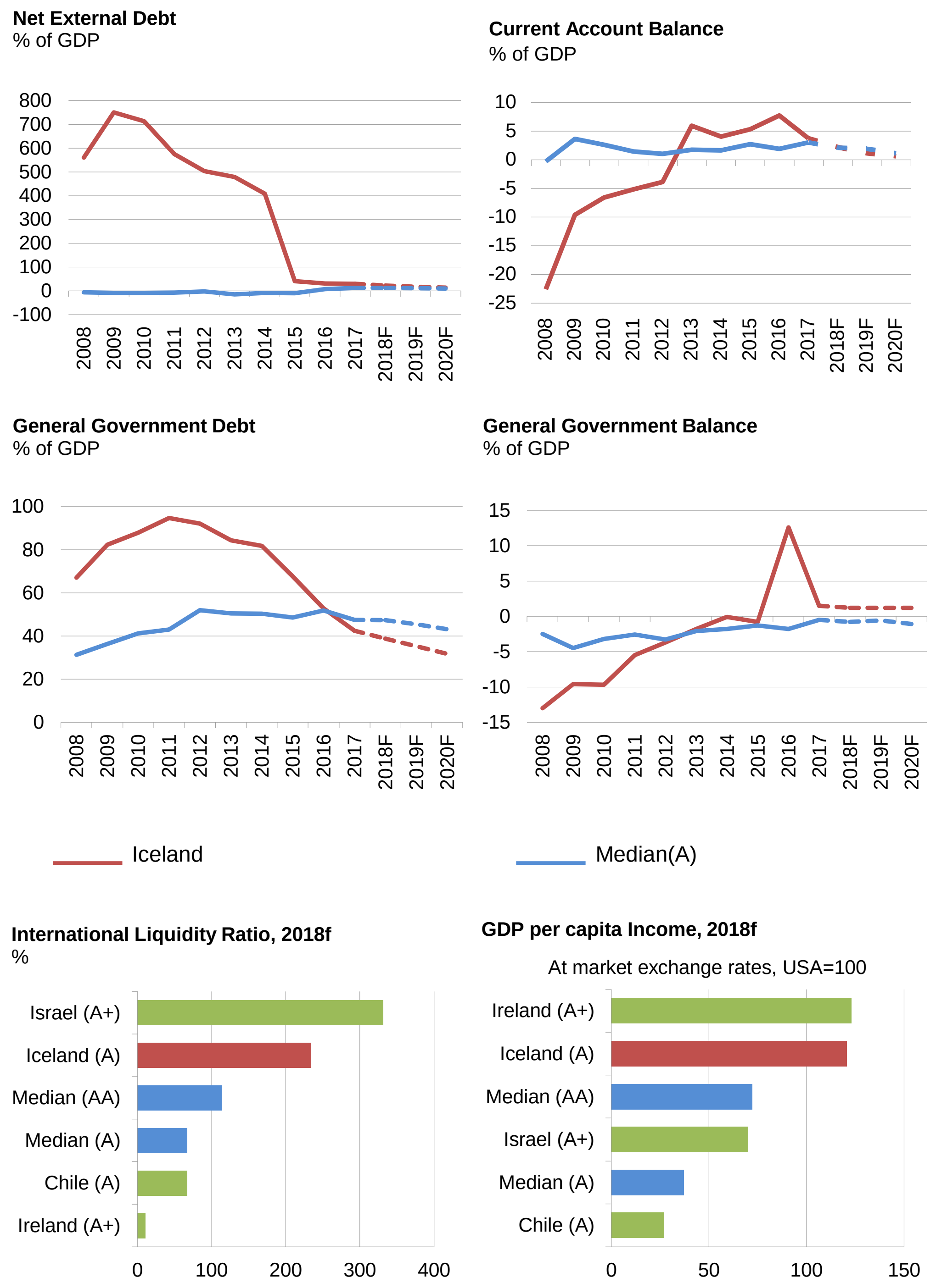
Rating Sensitivities

Public Debt Reduction: Continued falls in the public debt ratio, supported by prudent fiscal policy, would provide uplift to the rating.

External Resilience: Sustained improvement in the external balance sheet and resilience of the economy to external shocks would be positive for the rating. Conversely, excessive capital outflows leading to external imbalances and exchange rate pressures would be negative.

Overheating Economy: Evidence of overheating in the domestic economy, for example through wage-price spirals, inflation overshoots, and adverse effects on household and corporate balance sheets, could lead to a negative rating action.

Peer Comparison



Note: Medians based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period.

Related Criteria

Sovereign Rating Criteria (March 2018)
Country Ceilings Criteria (July 2017)

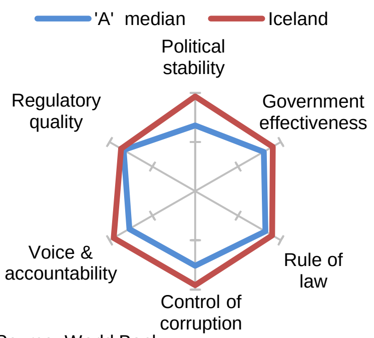
Peer Group

Rating	Country
A+	China
	Czech Republic
	Estonia
	Ireland
	Israel
	Malta
	Saudi Arabia
	Slovakia
A	**Iceland**
	Chile
	Japan
	Ras Al Khaimah
A−	Latvia
	Lithuania
	Malaysia
	Poland
	Slovenia
	Spain

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
8 Dec 17	A	A
7 Jul 17	A−	A−
22 Jul 16	BBB+	BBB+
24 Jul 15	BBB+	A−
14 Feb 13	BBB	BBB+
17 Feb 12	BBB−	BBB+
5 Jan 10	BB+	BBB+
8 Oct 08	BBB−	A−
30 Sep 08	A−	AA
15 Mar 07	A+	AA+
3 Feb 00	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’s high GDP per capita of USD75,070 in 2018 is more than three times the ‘A’ median.
- Iceland outperforms the ‘A’ median, and is more aligned with the ‘AAA’ median on the World Bank’s measures of Governance, Human Development, and Doing Business.
- The five-year average current account surplus of 5.3% of GDP is large compared to the ‘A’ median of 2.0% of GDP. This led to rising FX reserves to high levels of 9.1 months of external payments at end-2016. Reserves have tapered since the lifting of capital controls in March 2017, but remained at a high 6.6 months at end-2017.
- Public finances have been improving since the financial crisis. The general government surplus was 1.5% of GDP in 2017, and should narrow to 1.2% in 2018/2019 against an ‘A’ median of −1.4%, while debt has fallen to 42.4% of GDP against the median of 47.4%.
- The economy has recovered from the severe financial crisis of 2008/2009. Five-year average GDP growth has been stronger than the ‘A’ median, while the unemployment rate and five-year average HICP inflation rate have been lower.
- Unemployment is lower than the medians and reflects a highly flexible and internationally mobile labour supply.

Weaknesses

- The small economy has high commodity export dependence (35.1% of current external receipts against the ‘A’ median of 11.1%). The lack of diversification in Iceland’s export base makes it vulnerable to terms-of-trade shocks.
- Capital controls that prevented large-scale capital outflows during the height of the banking crisis have almost entirely been lifted. However, 3.5% of GDP worth of offshore krona assets continue to be restricted from conversion abroad at market rates (from 42% of GDP).
- Despite rapid public debt reduction recently, public external debt (23.2% of total debt) and interest payments (6.5% of revenue) are still much higher than ‘A’ medians.
- Gross and net external debt metrics are higher than the peer medians.

Local-Currency Rating

Iceland’s credit profile does not support uplifts of the Long-Term Local-Currency IDR (LT LC IDR) above the Long-Term Foreign-Currency IDR (LT FC IDR). In Fitch’s view, neither of the two key factors supporting upward notching of the LT LC 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 Iceland’s LT FC IDR, reflecting the imposition of capital controls since 2008, which ring-fenced sovereign debt service but curtailed cross-border capital portfolio flows and restricted a large amount of non-resident assets from conversion to foreign-currency assets at market rates.

Strengths and Weaknesses: Comparative Analysis[a]

2018	Iceland A	A median	AA median	Ireland A+	Israel A+	Chile A
Macroeconomic performance and policies						
Real GDP (5yr average % change)	4.2	4.0	3.0	10.3	3.3	2.1
Volatility of GDP (10yr rolling SD)	4.1	2.5	2.1	8.1	1.3	2.4
Consumer prices (5yr average)	0.1	2.6	2.4	0.2	0.0	3.4
Volatility of CPI (10yr rolling SD)	5.3	1.9	1.3	1.1	1.5	1.3
Unemployment rate (%)	3.0	6.5	5.1	5.8	4.3	6.5
Type of exchange rate regime	Floating	n.a.	n.a.	EMU	Floating	Floating
Dollarisation ratio (% of bank deposits)	8.8	11.0	13.5	0.0	0.0	14.9
REER volatility (10yr rolling SD)	8.8	5.2	4.3	6.9	3.5	3.9
Structural features						
GDP per capita (USD, mkt exchange rates)	75,070	22,917	46,637	76,395	43,548	16,815
GNI per capita (PPP, USD, latest)	51,170	31,810	48,625	59,070	36,810	22,540
GDP (USDbn)	25.9	n.a.	n.a.	369.6	368.1	306.3
Human development index (percentile, latest)	95.7	80.7	88.8	96.2	90.3	79.6
Governance indicator (percentile, latest)[b]	92.3	75.2	85.0	89.4	71.7	79.5
Broad money (% GDP)	40.6	86.2	95.7	72.7	104.7	115.4
Default record (year cured)[c]	-	n.a.	n.a.	-	-	1990
Ease of doing business (percentile, latest)	88.4	83.0	88.1	91.6	72.0	71.5
Trade openness (avg. of CXR + CXP % GDP)	49.4	62.3	46.9	132.4	34.1	35.8
Gross domestic savings (% GDP)	24.5	27.5	26.3	56.9	22.0	24.6
Gross domestic investment (% GDP)	21.8	23.8	23.0	24.0	20.4	22.0
Private credit (% GDP)	91.9	75.3	104.3	42.7	66.6	74.5
Bank systemic risk indicators[d]	-/1	n.a.	n.a.	4/1	4/1	3/1
Bank system capital ratio (% assets)	-	14.6	14.4	0.0	0.0	13.8
Foreign bank ownership (% assets)	-	50.5	25.0	0.0	0.0	59.5
Public bank ownership (% assets)	-	15.6	20.1	0.0	0.0	16.4
External finances						
Current account balance + net FDI (% GDP)	3.2	2.7	0.5	13.2	3.7	0.8
Current account balance (% GDP)	2.2	1.1	1.5	11.4	2.5	-1.0
Net external debt (% GDP)	22.5	-8.3	-21.6	13.9	-51.0	10.6
Gross external debt (% CXR)	159.0	103.3	211.5	168.8	65.6	166.9
Gross sovereign external debt (% GXD)	13.3	17.4	15.2	15.6	33.9	13.0
Sovereign net foreign assets (% GDP)	14.6	11.8	3.4	-23.0	24.7	13.8
Ext. interest service ratio (% CXR)	3.7	2.4	4.8	3.4	1.7	6.8
Ext. debt service ratio (% CXR)	17.8	12.6	24.4	22.4	6.6	38.7
Foreign exchange reserves (months of CXP)	6.3	4.4	2.5	0.1	11.6	4.2
Liquidity ratio (latest)[e]	234.5	118.0	81.5	10.5	331.6	66.8
Share of currency in global reserves (%)	0	n.a.	n.a.	20	0	0
Commodity export dependence (% CXR, latest)	35.1	11.1	15.6	6.1	3.7	68.2
Sovereign net foreign currency debt (% GDP)	-16.3	-10.6	-7.8	-0.9	-24.7	-8.1
Public finances[f]						
Budget balance (% GDP)	1.2	-2.3	-0.5	-0.2	-3.2	-1.9
Primary balance (% GDP)	3.9	-0.3	1.5	1.5	-0.4	-0.9
Gross debt (% revenue)	94.1	135.7	105.2	260.3	170.3	105.1
Gross debt (% GDP)	38.8	41.0	39.2	66.4	60.7	25.2
Net debt (% GDP)	31.8	35.9	27.6	61.6	57.9	19.1
Foreign currency debt (% total debt)	13.5	13.8	0.8	0.0	11.7	18.4
Interest payments (% revenue)	6.5	4.8	4.2	6.8	7.9	3.9
Revenues and grants (% GDP)	41.3	34.8	40.4	25.5	35.7	24.0
Volatility of revenues/GDP ratio	12.8	5.9	4.9	15.0	1.1	4.3
Central govt. debt maturities (% GDP)	3.1	5.1	7.4	6.0	6.4	0.6

[a] Medians based on actual data since 2000 (excl. forecasts) for all sovereign-year observations where the sovereign was in the respective rating category at year-end. Three-year centred averages are used for the more dynamic variables (e.g. current account and fiscal balance)
[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] No modern history of default
[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

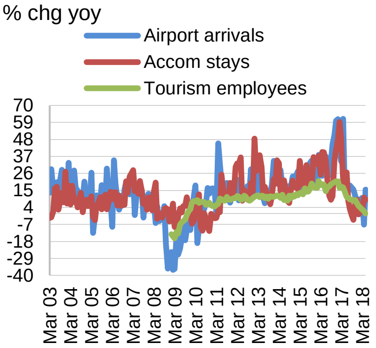
Tourism Slowdown Drives Growth Moderation

Real GDP growth in Iceland peaked at 7.5% in 2016, and slowed to 3.6% in 2017 as the positive output gap narrowed. Fitch forecasts growth to slow further to 3.3% in 2018, 2.9% in 2019 and 2.8% by 2020. This is driven by a moderation in tourism demand, with growth in tourist arrivals peaking at 34.6% yoy in 2016, and moderating significantly but remaining positive at 6.8% yoy for 5M18. The robust growth in tourism receipts caused a strong appreciation of the krona (19% against the US dollar since end-2015) and is cooling the overheated tourism sector.

Further diversification of the economy from its key tourism, aluminium and fisheries industries is limited in the near term. There are some prospects of large energy-intensive data computing centres being set up in Iceland, but such plans are conditioned on an expensive expansion of the data connectivity infrastructure. These developments would greatly expand Iceland's sale of energy to foreign companies, but are unlikely to materialise within the next couple of years.

Tourism Growth Slowing

% chg yoy



Source: Statistics Iceland

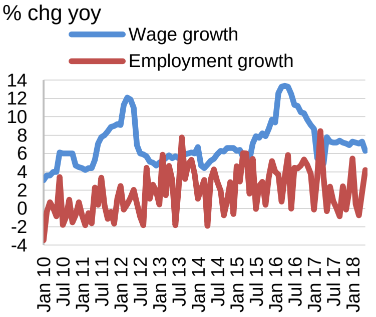
Wage Pressures Building

Current wage agreements agreed in 2015 expire in 2018. Vociferous demands by new trade union leaders are putting pressure on the government to improve real disposable incomes, benefits for lower earners and housing affordability, in the lead-up to wage talks at end-2018. The government's current fiscal plan includes some concessions spread over the parliamentary term, but is yet to be approved by parliament and could impact the outcome of the wage talks.

Despite real disposable incomes rising by 9.2% in 2016 and 8.0% in 2017, and wage growth averaging 11.4% and 6.9% in these respective years, workers' discontent at faster growth in the incomes of higher earners than lower earners in recent years is driving further for fiscal concessions and higher wage agreements. Given uncertainty over tax reforms and the wage talks, there is downside risk of higher wage pressures and corresponding inflationary pressures.

Robust Labour Market Dynamics

% chg yoy



Source: Statistics Iceland

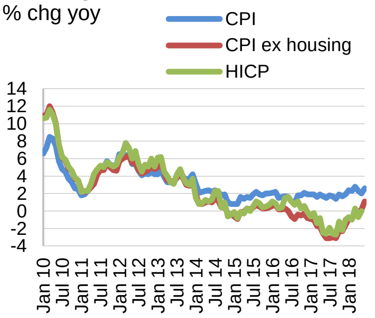
Broad Stability in Inflation Dynamics

National CPI inflation (the main inflation measure for monetary policy) has been relatively stable since 2014, and measured 2.6% yoy in June 2018. HICP in contrast measured 0.0% yoy in May 2018, reflecting the exclusion of housing costs. This stability in CPI inflation masks strong inflationary pressure from housing costs, which offsets the underlying disinflation in the economy from pass-through from the appreciation of the krona in recent years.

As growth in tourism tapers off, the effects of the robust housing prices and pass-through from krona appreciation are likely to fade and roughly offset each other. The recovery in global oil prices is also likely to drive inflation over the forecast horizon, while there is upside risk to the forecasts from higher wages as discussed above, which could further erode price competitiveness in the tourism sector.

Housing and Oil Prices Driving Inflation

% chg yoy



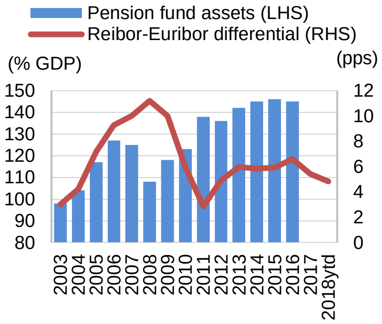
Source: Statistics Iceland

Current Account Surplus to Narrow; Pension Rebalancing Risk for ISK

The slowdown in tourism activity growth is reflected in a narrowing of the current account surplus to 3.7% of GDP in 2017 (2016: 7.7%). Fitch expects this trend to continue, with the recent improvement in the services balance account reversing slightly, while continued robust domestic demand and rising oil prices are expected to widen the trade deficit. Fitch forecasts the current account surplus to narrow to 2.2% of GDP in 2018 and to 0.6% by 2020.

Icelandic pension funds hold assets of 154% of GDP in 2017 and own c.50% of listed shares in Iceland, with only 26% of aggregate assets invested abroad, reflecting the recent capital controls between 2008 and 2016. The sector is made up of 21 funds with considerable heterogeneity in business models and shares of foreign assets, with a natural preference for ISK assets given their ISK-denominated liabilities.

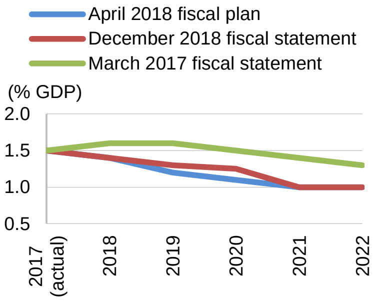
Large Pensions Assets Face Rebalancing Abroad



Source: Central Bank Iceland, ECB

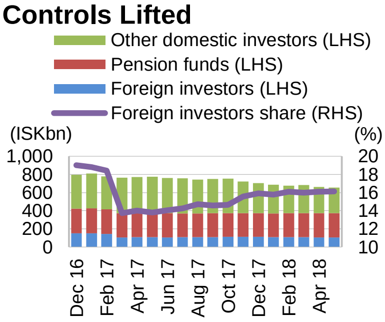
Slight Easing in Fiscal Policy Path

GG fiscal balance



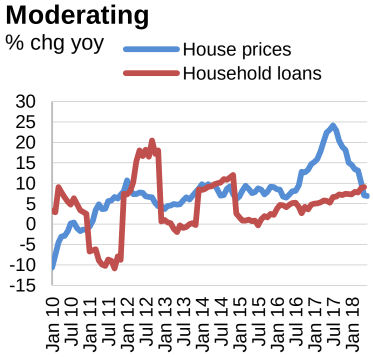
Source: Ministry of Finance

Foreign Investors in Govt. Debt Stabilised Since Capital Controls Lifted



Source: Goverenment Debt Management

Overheated House Prices Moderating



Source: Central Bank Iceland

Notwithstanding these mitigating factors, the impending rebalancing of pension assets abroad (the industry is targeting 40%-45% of foreign assets) as the positive interest rate differential with global interest rates narrows presents a latent risk of capital outflows from the economy and downside risk for the krona. An unfavourable change in the domestic investment landscape could lead to funds rushing to rebalance asset holdings abroad as such a momentum could affect domestic asset prices and weaken the krona in the absence of a managed rebalancing of the sector's assets.

Slight Easing From Previous Government's Fiscal Policy Path

Iceland's general government surplus narrowed to 1.5% of GDP in 2017 (2016: 12.6%), due to the falling away of large one-off revenues from the financial stability contributions of the old banks' estates that boosted the 2016 fiscal surplus.

The new coalition government formed in November 2017 spans the whole political spectrum, but agreed a fiscal policy statement in December that eases the fiscal policy path relative to the previous government's plans. The plan continues the pro-cyclicality of fiscal policy in recent years, but adheres to the fiscal rules enshrined in the Organic Budget Law.

The government's April 2018 medium-term fiscal plan has been approved by parliament and targets a general government surplus of 1.4% of GDP in 2018, gradually narrowing to 1.0% by 2021-2022 owing to fiscal consolidation at the central government level. Expenditures are expected to be in line with GDP growth, rising faster in 2019-2021 due to higher transport, education and healthcare investments, while revenues are expected to fall as a share of GDP due to proposed reforms to lower the tax burden. These include plans to cut employers' social security contributions in two phases and a gradual 1pp cut in the tax rate for lower earners.

A further reform of the private benefits system could also be proposed to better support lower earners, with differing views in the government over labour market concessions having the potential to create some strain within the government over the scope of the concessions.

Public Debt to Stabilise at Roughly 30% of GDP

Foreign investors in government debt have to post 40% of their investment in a 0% Central Bank of Iceland (CBI) account for a year as part of the CBI's capital flow management requirement. Despite this, foreign holdings of government debt have increased since capital controls were lifted.

Plans to establish a sovereign wealth fund and to maintain government debt issuance could lead to gross general government debt stabilising at roughly 30% of GDP beyond 2024, government assets accumulating, and a corresponding fall in net debt. The sovereign fund is expected to be used as a stability fund with contributions mainly from energy sector revenues.

Contingent liabilities mainly consist of state guarantees (38% of GDP) to the Housing Finance Fund (79% of guarantees) and the energy company (19% of guarantees), but are well managed and reporting operating surpluses. Pension fund reforms at end-2016 and a large one-off capital injection into the state pension system reduced the size of unfunded pension liabilities. Going forward, an estimated 0.3pp of GDP in capital injections per year are needed to keep the state pension system fully funded and are included in the state budget.

Slowing Tourism Activity Cools Overheated Housing Market

The tourism boom and the ancillary boom in AirBnB rentals have fuelled house price growth. Average house price growth across Iceland peaked at 20.5% yoy in May 2017, putting pressure on affordability. The overheating residential real estate market is reflected in a rise in house price indices deflated by wages, rents and building cost indices since mid-2016. In recent months, these indicators have stabilised, as house price growth moderated to 3.9% yoy in May 2018, in line with slowing tourism demand and stronger construction activity.

Despite the strong rise in housing prices in recent years, growth in household mortgages has been subdued and only turned positive in 2H16 as households have continued to deleverage and take advantage of fiscal incentives to use pension savings to repay mortgage debt.

Fitch uses stylised projections for a sovereign's gross general government debt/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

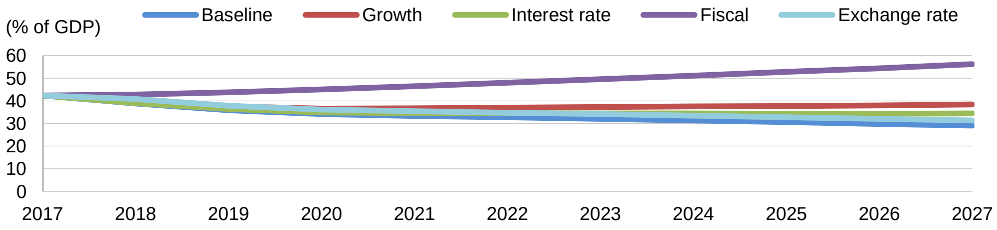
According to Fitch's baseline projections, gross general government debt should fall to 35.2% of GDP in 2019 and stabilise at roughly 30% of GDP in the long run. The government's strategy to maintain debt issuance and accumulate assets in a sovereign fund should lead to a floor in the government debt/GDP level.

Debt Dynamics: Fitch's Baseline Assumptions

	2017	2018	2019	2020	2021	2022	2027
Gross general government debt (% of GDP)	42.4	38.8	35.2	31.7	31.0	30.3	29.0
Primary balance (% of GDP)	5.5	3.9	3.9	3.0	2.0	2.0	2.0
Real GDP growth (%)	3.6	3.3	2.9	2.8	2.5	2.0	2.0
Avg. nominal effective interest rate (%)	7.9	7.4	7.0	6.7	6.5	6.4	6.7
ISK/USD (annual avg.)	106.84	104.42	105.60	105.60	105.60	105.60	105.60
GDP deflator (%)	0.5	2.5	3.8	2.8	2.5	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 1% lower (half standard deviation lower)
Interest rate	marginal interest rate 250bp higher
Fiscal	No change in primary balance from 0% of GDP level
Exchange rate	20% depreciation at end-2018

Forecast Summary

	2014	2015	2016	2017	2018f	2019f	2020f
Macroeconomic indicators and policy							
Real GDP growth (%)	2.2	4.3	7.5	3.6	3.3	2.9	2.8
Unemployment (%)	5.0	4.0	3.0	2.8	3.0	3.0	3.0
Consumer prices (annual average % change)	1.0	0.3	0.8	-1.6	0.1	1.0	2.0
Short-term interest rate (bank policy annual avg.) (%)	5.0	4.3	5.5	4.5	4.0	4.0	3.8
General government balance (% of GDP)	-0.1	-0.8	12.6	1.5	1.2	1.2	1.2
General government debt (% of GDP)	81.8	67.6	52.7	42.4	38.8	35.2	31.7
ISK per USD (annual average)	116.77	131.92	120.81	106.84	104.42	105.60	105.60
Real effective exchange rate (2000 = 100)	85.2	87.2	97.5	109.3	113.6	117.1	119.4
Real private sector credit growth (%)	-5.7	2.6	3.4	10.5	3.9	3.0	2.0
External finance							
Current account balance (% of GDP)	4.0	5.3	7.7	3.7	2.2	1.1	0.6
Current account balance plus net FDI (% of GDP)	8.3	9.4	11.2	4.0	3.2	2.0	1.4
Net external debt (% of GDP)	408.9	40.6	31.1	29.7	22.5	17.8	13.7
Net external debt (% of CXR)	694.1	68.8	57.2	57.8	44.6	34.8	26.7
Official international reserves including gold (USDm)	4,175.8	5,040.7	7,226.4	6,566.6	6,547.9	6,637.4	6,701.1
Official international reserves (months of CXP cover)	5.3	6.6	9.1	6.9	6.3	5.8	5.4
External interest service (% of CXR)	14.0	9.3	5.6	4.6	3.7	3.3	3.0
Gross external financing requirement (% int. reserves)	987.9	501.7	-23.4	-0.8	19.1	10.7	20.1
Real GDP growth (%)							
US	2.6	2.9	1.5	2.3	2.8	2.5	2.1
China	7.3	6.9	6.7	6.9	6.6	6.3	6.1
Eurozone	1.2	2.1	1.8	2.3	2.5	1.8	-
World	-	-	-	-	-	-	-
Oil (USD/barrel)	98.9	52.4	45.1	54.9	70.0	65.0	57.5

Source: Fitch

Fiscal Accounts Summary

(% of GDP)	2015	2016	2017	2018f	2019f	2020f
General government						
Revenue	**41.7**	**57.8**	**43.4**	**41.3**	**41.1**	**41.1**
Expenditure	**42.5**	**45.2**	**41.9**	**40.1**	**39.9**	**39.9**
O/w interest payments	4.6	4.0	4.0	2.7	2.7	2.7
Primary balance	3.7	16.6	5.5	3.9	3.9	3.9
Overall balance	**-0.8**	**12.6**	**1.5**	**1.2**	**1.2**	**1.2**
General government debt	**67.6**	**52.7**	**42.4**	**38.8**	**35.2**	**31.7**
% of general government revenue	162.2	91.2	97.6	94.1	85.6	77.2
Central government deposits	19.5	11.6	7.4	7.0	6.6	6.1
Net general government debt	48.0	41.1	35.0	31.8	28.6	25.6
Central government						
Revenue	**31.0**	**46.8**	**31.9**	-	-	-
O/w grants	0.5	0.5	0.5	-	-	-
Expenditure and net lending	**31.2**	**34.6**	**30.7**	-	-	-
O/w current expenditure and transfers	29.3	32.8	28.7	-	-	-
- Interest	4.1	3.5	3.4	-	-	-
O/w capital expenditure	1.9	1.8	2.0	-	-	-
Current balance	1.6	14.0	3.2	-	-	-
Primary balance	3.9	15.8	4.7	-	-	-
Overall balance	**-0.3**	**12.2**	**1.2**	-	-	-
Central government debt	59.7	45.8	35.7	-	-	-
% of central government revenues	192.6	97.7	111.7	-	-	-
Central government debt (ISKm)	**1,333,689.0**	**1,122,878.0**	**911,053.0**	-	-	-
By residency of holder						
Domestic	1,110,189.0	971,632.0	690,911.0	-	-	-
Foreign	223,500.0	151,246.0	220,142.0	-	-	-
By currency denomination						
Local currency	1,026,779.0	920,193.0	794,526.0	-	-	-
Foreign currency	306,910.0	202,685.0	-	-	-	-
In USD equivalent (eop exchange rate)	2,368.3	1,796.5	-	-	-	-
Average maturity (years)	6.6	6.4	6.3	-	-	-
Memo						
Nominal GDP (ISKm)	2,235,000.0	2,452,969.0	2,554,565.0	2,703,467.6	2,885,581.6	3,085,276.1

Source: Ministry of Finance and Fitch estimates and forecasts

External Debt and Assets

(USDm)	2013	2014	2015	2016	2017	2018f
Gross external debt	**107,547.7**	**97,968.9**	**30,422.0**	**25,576.6**	**21,798.4**	**20,809.6**
% of GDP	691.7	566.2	179.6	126.0	91.2	80.4
% of CXR	1,103.1	961.1	304.1	231.4	177.3	159.0
By maturity						
Medium- and long-term	74,734.3	70,988.0	19,008.2	23,963.7	21,798.4	20,809.6
Short -term	32,813.4	26,981.0	11,413.8	1,612.9	-	-
% of total debt	30.5	27.5	37.5	6.3	-	-
By debtor						
Sovereign	**6,305.6**	**5,275.4**	**4,496.7**	**3,881.5**	**2,760.5**	**2,760.5**
Monetary authorities	1,486.2	697.8	287.2	408.3	405.2	405.2
General government	4,819.4	4,577.6	4,209.5	3,473.3	2,355.3	2,355.3
O/w central government	1,532.7	2,443.7	1,724.7	1,340.6	2,108.2	0.0
Banks	**1,268.4**	**1,179.8**	**2,172.3**	**4,209.8**	**5,753.2**	**5,714.4**
Other sectors	**99,973.7**	**91,513.7**	**237,53.0**	**17,485.3**	**13,284.7**	**12,334.7**
Gross external assets (non-equity)	**33,101.4**	**27,220.6**	**23,535.6**	**19,253.6**	**14,695.9**	**14,976.5**
International reserves, incl. gold	4,237.9	41,75.8	5,040.7	7,226.4	6,566.6	6,547.9
Other sovereign assets nes	0.0	0.0	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	47,79.7	3,160.9	2,795.3	2,345.6	3,144.0	3,144.0
Other sector foreign assets	24,707.1	19,953.4	15,835.2	9,823.6	5,155.0	5,345.3
Net external debt	**74,446.3**	**70,748.4**	**6,886.3**	**6,323.0**	**7,102.6**	**5,833.1**
% of GDP	478.8	408.9	40.6	31.1	29.7	22.5
Net sovereign external debt	2,087.0	1,098.4	-540.8	-3,348.8	-3,810.2	-3,790.8
Net bank external debt	-2,907.4	-1,910.4	-490.6	2,010.1	2,783.0	2,634.5
Net other external debt	75,266.6	71,560.4	7,917.8	7,661.7	8,129.7	6,989.3
Net international investment position	**-65,690.9**	**-61,342.0**	**-818.9**	**867.7**	**1,822.8**	**-**
% of GDP	-422.5	-354.5	-4.8	4.3	7.6	-
Sovereign net foreign assets	**-2,085.4**	**-1,097.0**	**542.3**	**3,350.5**	**3,811.9**	**3,792.5**
% of GDP	-13.4	-6.3	3.2	16.5	15.9	14.6
Debt service (principal & interest)	**26,297.9**	**43,991.7**	**22,774.2**	**997.9**	**1,384.6**	**2,324.8**
Debt service (% of CXR)	269.7	431.6	227.7	9.0	11.3	17.8
Interest (% of CXR)	15.9	14.0	9.3	5.6	4.6	3.7
Liquidity ratio (%)	13.2	11.5	14.3	56.3	198.9	234.5
Net sovereign FX debt (% of GDP)	3.7	2.3	-4.9	-18.5	-17.6	-16.3
Memo						
Nominal GDP	15,548.3	17,304.0	16,942.3	20,304.1	23,910.3	25,890.3
Inter-company loans	11,956.4	11,931.0	8,812.7	10,240.5	6,479.5	6,529.5

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

Balance of Payments

(USDm)	2015	2016	2017	2018f	2019f	2020f
Current account balance	**895.4**	**1,563.4**	**873.1**	**582.1**	**290.9**	**165.3**
% of GDP	5.3	7.7	3.7	2.2	1.1	0.6
% of CXR	9.0	14.1	7.1	4.4	2.1	1.1
Trade balance	**-269.2**	**-841.5**	**-1,563.6**	**-1,900.7**	**-2,249.4**	**-2,536.6**
Exports, fob	4,657.3	4,471.7	4,941.1	5,287.0	5,657.1	6,121.0
Imports, fob	4,926.4	5,313.2	6,504.7	7,187.7	7,906.5	8,657.6
					,	
Services, net	**1,511.4**	**2,127.9**	**2,547.5**	**2,593.7**	**2,651.2**	**2,812.8**
Services, credit	4,353.9	5,350.9	6,288.1	6,732.0	7,210.0	7,811.5
Services, debit	2,842.5	3,223.0	3,740.5	4,138.3	4,558.8	4,998.7
Income, net	**-60.3**	**379.2**	**55.7**	**55.7**	**55.7**	**55.7**
Income, credit	877.6	1,039.2	832.6	832.6	832.6	832.6
Income, debit	937.9	660.0	776.9	776.9	776.9	776.9
O/w: Interest payments	927.8	614.7	570.9	486.5	464.5	451.3
Current transfers, net	**-286.6**	**-102.2**	**-166.5**	**-166.5**	**-166.5**	**-166.5**
Capital and financial accounts						
Non-debt-creating inflows (net)	3,799.9	1,815.5	1,626.2	687.4	687.4	687.4
O/w equity FDI	3,628.2	567.0	166.3	200.0	200.0	200.0
O/w portfolio equity	182.9	1,260.5	1,472.5	500.0	500.0	500.0
O/w other flows	-11.2	-12.0	-12.6	-12.6	-12.6	-12.6
Change in reserves	1,087.9	2,389.4	-937.6	-19.4	89.4	63.8
Gross external financing requirement	**20,951.1**	**-1,180.2**	**-59.3**	**1,256.1**	**697.5**	**1,334.8**
Stock of international reserves, incl. gold	**5,040.7**	**7,226.4**	**6,566.6**	**6,547.9**	**6,637.4**	**6,701.1**

Source: IMF and Fitch estimates and forecasts

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