

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
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Outlooks

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

Financial Data

Iceland	
(USDm)	2018
GDP	26,750.8
GDP per head (USD 000)	77
Population (m)	0.4
International reserves	6,738.8
Net external debt (% GDP)	22.7
Central government total debt (% GDP)	30.2
CG foreign-currency debt (2017)	1,115.9
CG domestically issued debt (ISKbn) (2017)	794.5

Source: Fitch Ratings

Rating Derivation

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

Related Research

[Fitch Ratings 2019 Outlook: Western Europe Sovereigns \(November 2018\)](#)
[Global Economic Outlook \(December 2018\)](#)

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Key Rating Drivers

Strong Structurals, Weak Externals: Iceland's 'A' Issuer Default Ratings (IDRs) balance its very high income per capita, strong governance, human development and doing business metrics against a high dependence on commodity exports, vulnerability to external shocks and experience of macroeconomic and financial volatility.

Robust Growth Normalising: Trend real GDP growth in Iceland has exceeded the peer medians, with five-year average growth of 4.5%. Fitch Ratings revised up its growth forecast for 2018 to 4.5% but expects growth to slow to 3.0% and 2.6% in 2019-2020 as the overheated tourism sector normalises.

Wage Pressures Rising: Labour market dynamics are robust, as employment grew 3.0% yoy and the unemployment rate was low at 2.1% in 3Q18. Wages grew by a robust 6.0% yoy in December 2018. Vociferous demands by labour union leaders and discontent at perceived growing inequality could lead to a return of strong wage rises in the ongoing wage negotiations.

Inflation Accelerating: Inflation pressures rose in 2018, with harmonised prices rising 2.0% yoy in December 2018. Inflation is driven by above-trend economic growth and demand, and impacted by pass-through of the weakening krona in 2H18. Rising inflation led to the Central Bank of Iceland (CBI) raising its key policy rate by 25bp to 4.5% in November 2018.

Sharp Krona Depreciation: The krona depreciated by 13% against the US dollar and 10% against the euro from September to November 2018, likely driven by a worsening outlook for wage-driven inflation, perceived risks from a key airline going into financial distress and, to a lesser extent, a narrowing current account surplus.

Expected Pension Rebalancing Abroad: We expect pension funds could rebalance their assets overseas following years of capital controls. This could lead to strong capital outflows.

Vulnerable to External Shocks: Net external debt has fallen rapidly, to 22.7% of GDP in 2018 (2009: 751%), but remains above the historical 'A' median of -8.0%. Iceland still has a high dependence on commodity exports and lacks diversification in its export base, making the economy vulnerable to terms of trade shocks and the krona sensitive to outflows.

Public Finances Improving: Public finance metrics are consistent with peers, with the government surplus averaging 1.2% of GDP in 2018-2020 compared to a deficit of 0.9% for the current 'A' median. General government debt at 36.7% of GDP has fallen rapidly from a peak of 92.0% in 2011 and is now slightly lower than the 'A' median. However, interest costs and share of short-term debt are higher than peers.

Rating Sensitivities

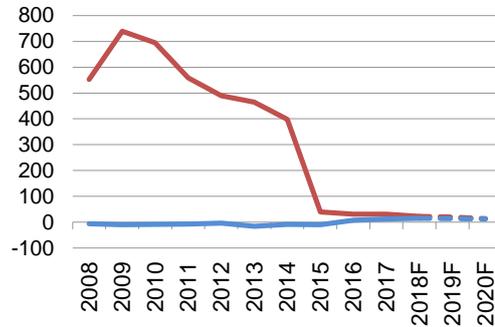
External Balance Sheet Improvement: Sustained improvement in the external balance sheet and resilience of the economy to external shocks could lead to a positive rating action.

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

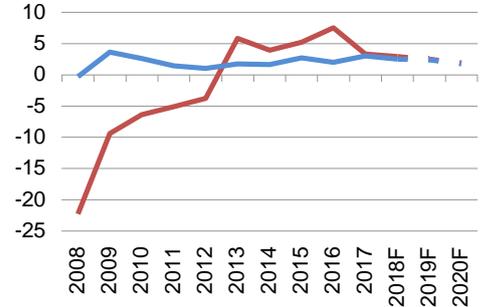
Capital Flight: Excessive capital outflows leading to external imbalances and pressures on the exchange rate would be negative for the rating.

Peer Comparison

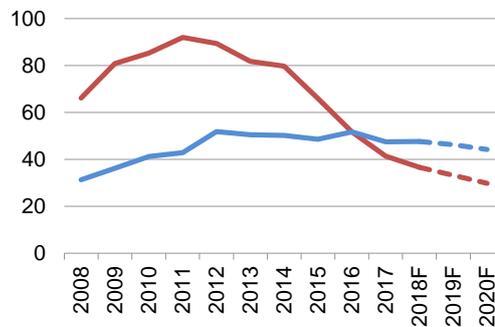
Net External Debt
% of GDP



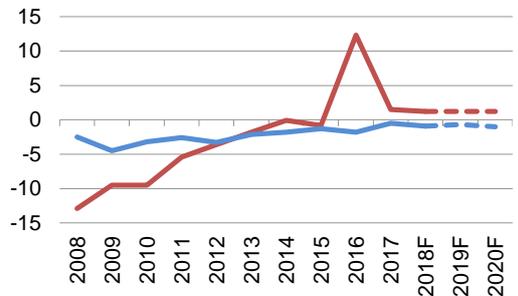
Current Account Balance
% of GDP



General Government Debt
% of GDP



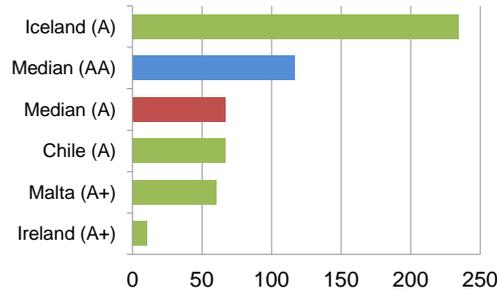
General Government Balance
% of GDP



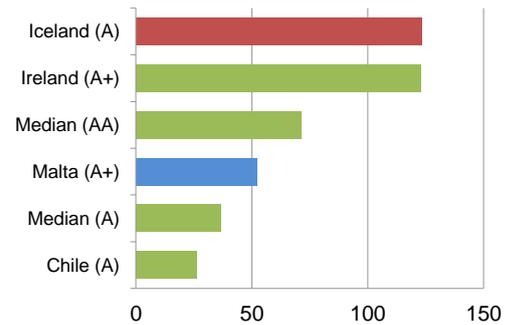
Iceland

Median(A)

International Liquidity Ratio, {year}
(%)



GDP per Capita Income, {year}
At market exchange rates, USA=100



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 \(July 2018\)](#)
- [Country Ceilings Criteria \(July 2018\)](#)

Peer Group

Rating	Country
A+	China
	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

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 Ratings

Strengths

- GDP and income per capita outperform the 'A' and 'AA' medians.
- Iceland ranks much higher on the World Bank Governance Indicators, Human Development Index, and Ease of Doing Business indicators relative to the medians.
- The general government surplus is forecast to average 1.2% of GDP in 2018-2020, while the medians are forecast to report fiscal deficits.
- Gross general government debt/GDP is forecast to fall to 36.7% in 2018, below the 'A' median of 40.9% and the 'AA' median of 39.2%. Iceland's public debt dynamics projects a faster debt reduction compared to the medians in the forecast period.
- Macroeconomic performance is strong, with the five-year average real GDP growth outperforming the medians, while five-year average HICP inflation is lower. The unemployment rate is at a low 2.8%.
- FX reserves are at a robust 6.6 months of current external payments.

Weaknesses

- The small economy has high commodity export dependence (37.3% of current external receipts against the 'A' median of 10.8%). 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 banking crisis have almost entirely been lifted. However, 3.2% of GDP worth of offshore krona assets continue to be restricted from conversion abroad at market rates (from a peak of 42% of GDP).
- Despite rapid reduction in external debt, gross and net external debt metrics are still higher than the medians.
- Iceland's public debt interest payments and the share of public debt maturing in a year are higher than the 'A' median.

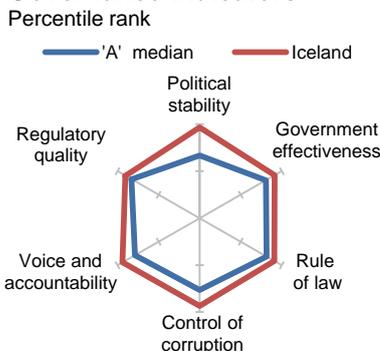
Local Currency Rating

Iceland's credit profile does not support uplifts of the Long-Term Local-Currency IDR above the Long-Term Foreign-Currency IDR. In Fitch's view, neither of the two key factors supporting 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 aligned with Iceland'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 restricted a large amount of non-resident assets from conversion to foreign-currency assets at market rates.

Governance Indicators



Source: Fitch Ratings, World Bank

Strengths and Weaknesses: Comparative Analysis

2018	Iceland A	A median	AA median	Ireland A+	Malta A+	Chile A
Macroeconomic performance and policies						
Real GDP (5yr average % change)	4.5	4.1	3.0	10.3	7.1	2.2
Volatility of GDP (10yr rolling SD)	4.1	2.5	2.1	8.1	3.5	2.4
Consumer prices (5yr average)	0.2	2.6	2.4	0.2	1.1	3.4
Volatility of CPI (10yr rolling SD)	5.3	1.9	1.3	1.1	0.8	1.3
Unemployment rate (%)	2.8	6.5	5.1	5.8	4.0	6.5
Type of exchange rate regime	Floating	n.a.	n.a.	EMU	EMU	Floating
Dollarisation ratio (% of bank deposits)	9.8	10.9	13.5	0.0	15.8	12.9
REER volatility (10yr rolling SD)	8.9	5.1	4.3	6.9	2.8	3.9
Structural features						
GDP per capita (USD, mkt exchange rates)	77,040	22,451	44,516	76,395	32,669	16,322
GNI per capita (PPP, USD, latest)	53,280	30,920	46,720	59,070	35,710	22,540
GDP (USDbn)	26.8	n.a.	n.a.	369.6	14.0	297.6
Human development index (percentile, latest)	97.3	80.7	88.8	96.2	81.8	79.6
Governance indicator (percentile, latest) ^b	92.8	76.0	85.0	89.4	85.3	79.5
Broad money (% GDP)	43.4	86.2	95.7	72.7	178.6	115.6
Default record (year cured) ^c	-	n.a.	n.a.	-	-	1990
Ease of doing business (percentile, latest)	89.4	83.0	88.1	91.6	56.1	71.5
Trade openness (avg. of CXR + CXP % GDP)	47.1	60.3	46.8	132.4	215.7	35.7
Gross domestic savings (% GDP)	25.9	27.7	26.3	56.9	40.2	24.6
Gross domestic investment (% GDP)	22.3	23.8	23.1	24.0	20.8	22.0
Private credit (% GDP)	87.7	80.3	104.3	42.7	76.9	75.1
Bank systemic risk indicators ^d	- / 1	n.a.	n.a.	bbb / 1	-/1	a/1
Bank system capital ratio (% assets)	23.1	14.6	14.4	0.0	-	13.8
Foreign bank ownership (% assets)	-	50.3	22.4	0.0	-	57.5
Public bank ownership (% assets)	68.9	15.6	19.7	0.0	-	17.2
External finances						
Current account balance + net FDI (% GDP)	3.8	2.7	0.5	13.2	80.0	1.0
Current account balance (% GDP)	2.7	1.1	1.5	11.4	11.3	-2.1
Net external debt (% GDP)	22.7	-8.0	-21.6	13.9	-199.1	14.8
Gross external debt (% CXR)	163.4	103.3	211.5	168.8	359.9	175.1
Gross sovereign external debt (% GXD)	13.0	17.2	15.2	15.6	1.5	13.7
Sovereign net foreign assets (% GDP)	14.9	11.8	3.4	-23.0	47.7	13.7
Ext. interest service ratio (% CXR)	3.8	2.4	4.8	3.4	5.0	7.2
Ext. debt service ratio (% CXR)	17.9	12.6	24.4	22.4	47.8	40.6
Foreign exchange reserves (months of CXP)	6.6	4.4	2.5	0.1	0.3	4.3
Liquidity ratio (latest) ^e	234.3	112.4	81.5	10.5	60.2	66.8
Share of currency in global reserves (%)	0	n.a.	n.a.	20	20	0
Commodity export dependence (% CXR, latest)	37.3	10.8	15.6	6.1	5.5	67.1
Sovereign net foreign currency debt (% GDP)	-17.7	-10.6	-8.0	-0.9	-5.5	-8.2
Public finances^f						
Budget balance (% GDP)	1.2	-2.3	-0.4	-0.2	1.0	-2.1
Primary balance (% GDP)	4.2	-0.3	1.6	1.5	2.8	-1.2
Gross debt (% revenue)	89.0	136.5	105.2	260.3	122.0	107.7
Gross debt (% GDP)	36.7	40.9	39.2	66.4	47.0	25.3
Net debt (% GDP)	30.5	35.8	27.6	61.6	34.2	19.4
Foreign currency debt (% total debt)	10.3	13.8	0.8	0.0	0.0	19.3
Interest payments (% revenue)	7.3	4.8	4.1	6.8	4.6	3.9
Revenues and grants (% GDP)	41.3	34.8	40.4	25.5	38.5	23.5
Volatility of revenues/GDP ratio	12.9	5.9	4.9	15.0	1.6	4.2
Central govt. debt maturities (% GDP)	7.3	5.0	7.4	6.0	2.4	1.0

^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 (eg 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'.

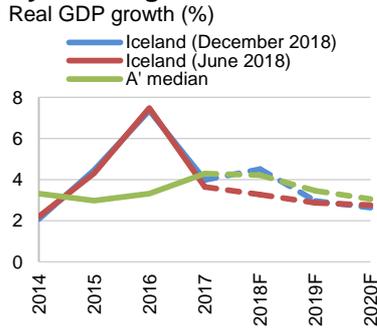
^e Ratio of liquid external assets, defined as the stock of official FX reserves including gold at the end of the previous calendar year plus banks' liquid external assets, to liquid external liabilities, defined as scheduled external debt service in the current year, plus the stock of short-term external 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)

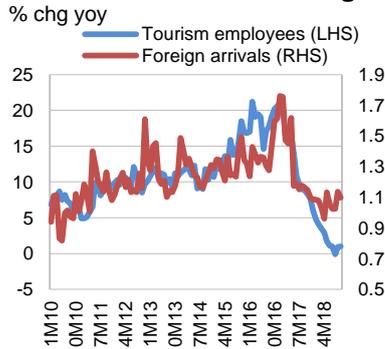
Source: Fitch Ratings

Growth Normalising From Cyclical Highs



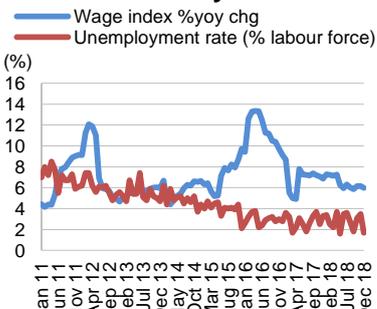
Source: Fitch Ratings, Statistics Iceland

Tourism Indicators Cooling



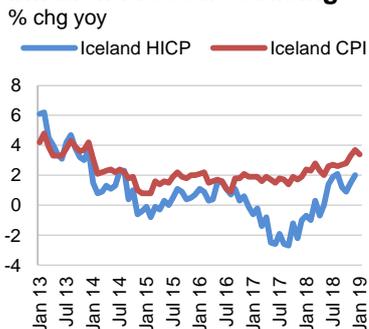
Source: Fitch Ratings, Statistics Iceland

Unemployment Low, Wage Growth Currently Moderate



Source: Fitch Ratings, Statistics Iceland

Inflation Pressures Rising



Source: Fitch Ratings, Eurostat, Statistics Iceland

Key Credit Developments

Growth Revised Up, but Set to Slowdown

Fitch revised up its real GDP growth forecast to 4.5% for 2018 at the time of the December 2018 rating review due to upward revisions to 2017 growth (4.0%) and stronger growth performance in 1H18. Real GDP growth at the time of our June 2018 review measured 3.6% in 2017 and was forecast to slow to 3.3% in 2018.

Stronger growth in 1H18 was driven by a fall in goods imports in 2Q18 and continued to be supported by strong private consumption and investments. Tourism has been the key driver of growth in 2018, with foreign passenger arrivals growing by an average 1.1% yoy in the 12 months to October 2018. VAT turnovers for tourism-related industries continued to grow at a robust 7.6% yoy in July-August 2018, having moderated from 12.8% yoy in January-February 2017 when the data series began. A slowdown in tourism activity is most pronounced in labour market indicators, with employment growth in tourism sectors declining to 0.7% yoy in September 2018, from a peak of 21.1% yoy in December 2016. Foreigner overnight-stays at Icelandic accommodations moderated to an average of 6.0% yoy in 10M18, compared to 15.6% in the same period in 2017.

The slowing growth in tourism activities is expected to be a drag on the quarterly growth profile from 3Q18, and continues to weigh on private consumption and investment growth going into 2019 and 2020. Fitch forecasts growth to fall to 3.0% and 2.6% in 2019 and 2020, more in line with its long-term trend growth.

Labour Market Improves but Risks of Strong Wage Spikes

Labour market dynamics are robust with employment growth strong, but moderating to 3.0% yoy in 3Q18, and the unemployment rate falling to a historical low of 2.1% of labour force in 3Q18. Wages continued to grow at a robust 6.2% yoy in October 2018.

Wage negotiations are expected to be concluded imminently, with a new agreement replacing the recently expired private sector agreements. Vociferous demands by labour union leaders and discontent at perceived growing income inequality could see a return of strong wage increases. Wage growth averaged 11.4% in 2016, and could see a spike again, which would hurt Iceland's competitiveness and raise inflation, resulting in pressures for faster tightening of monetary conditions.

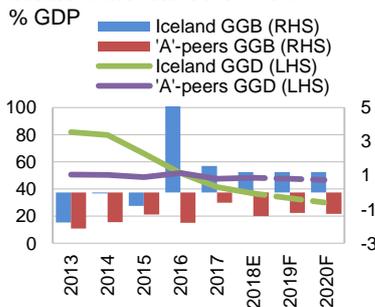
Despite a slightly more accommodative stance in the government's budget to address housing supply and affordability, increase social benefits and raise tax rebates, there are downside risks of higher wage pressures and corresponding inflationary pressures contingent on the outcome of the wage negotiations.

Inflationary Pressures Rising Leading to Monetary Tightening

Inflationary pressures have picked up in 2018, with harmonised price index (HICP) rising by 2.0% yoy in December 2018. Headline CPI inflation, which includes housing costs, and which is the key measure for monetary policy purposes, rose by a more robust 3.7% yoy. Inflation continues to be supported by above-trend growth and demand in the economy, especially in the tourism sector, but was also affected by pass-through of the sharp 9.6% depreciation of the ISK against the USD in 2H18. A narrowing of the differential between harmonised and CPI measures of inflation reflects the easing of overheated house prices in Iceland.

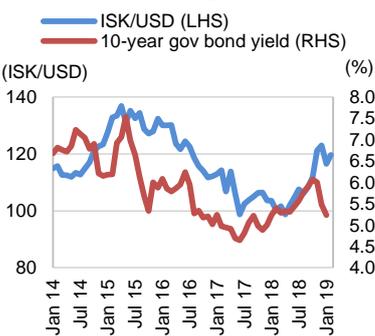
Rising inflationary pressures led to the CBI tightening its key policy rate by 25bps to 4.5% on 7 November 2018. Continued weakening of the krona and stronger-than-expected demand in the economy could continue to drive inflation upwards and Fitch expects further rate rises from the CBI in 2019.

Public Finances Stronger Than Current 'A' Peers



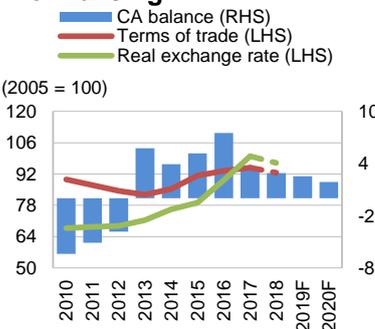
^a Iceland GGB 2016=12.3% of GDP
Source: Fitch Ratings, Statistics Iceland

Krona Weakened, Govt Yields Risen In 2H18



Source: Fitch Ratings, Datastream

External Indicators Normalising



Source: Fitch Ratings, CBI

Fiscal Surpluses Driving Public Debt Reduction

Iceland's public finances have been strengthening significantly since its banking crisis, with gross general government debt (GGGD) more than halving as a share of GDP, and the general government balance (GGB) turning a surplus since 2016.

Fitch forecasts the GGB to decline slightly to 1.2% of GDP in 2018 (2017: 1.5%)¹, reflecting the government's more gradual fiscal consolidation path, in line with our previous forecast during our June 2018 review. We continue to forecast the GGB to remain unchanged at 1.2% in 2019-2020, broadly in line with the government's medium-term targets and in the 2019 budget.

The 2019 budget envisages a slight increase in expenditures in transport infrastructure and healthcare, while higher child benefits, reduced levies on incomes and housing support should support lower income earners and facilitate labour negotiations.

We forecast total general government revenues to fall to 41.3% of GDP in 2018 (2017: 42.5%), falling slightly further to 41.1% in 2019-20, while government expenditures will remain relatively unchanged at the 40.0% of GDP level over the forecast horizon.

Government Bond Yields Rising from Emerging Risks

Average yields for Icelandic government bonds rose between July and October 2018, partly reflecting waning investor confidence due to risks of a faster slowdown in Iceland's tourism sector from news of the budget airline WOW Air experiencing financial distress. Closing yields for the bond maturing June 2025 peaked at 6.2% on 30 October 2018 (29 June: 5.3%), but has moderated slightly to 5.3% on 11 February 2019.

Risks from higher inflation, stronger-than-expected wage growth in the upcoming wage negotiations and a sharp weakening of the krona are likely to weigh down government prices and push yields up.

While near-term risks have driven up bond yields, Fitch expects government interest costs to be manageable and continue falling even if yields remain at these heightened levels in 2019, due to the continued trend of paying down debt (see debt sustainability analysis). Strong fiscal primary surpluses and net redemptions of government debt will continue to reduce the volume of debt needed to be issued at higher rates in the near term. The recent lowering of the capital flow management tool's reserve requirement ratio to 20% (from 40%) is likely to improve investor appetite for krona assets.

Sharp Krona Depreciation and Narrowing CA Surpluses

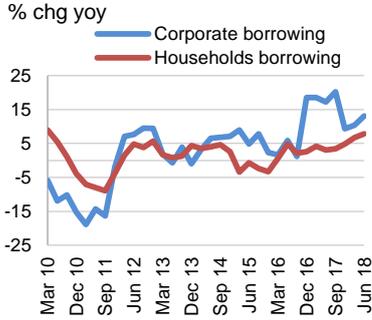
The krona depreciated by 13% against the USD and 10% against the EUR from September to November 2018. The depreciation is likely to be driven predominantly by a worsening outlook for wage-driven inflation, and perceived risks from a key airline operating routes to Iceland going into financial distress, and to a lesser extent a narrowing of the current account surplus.

The terms of trade worsened in 2018 after having improved by 13% cumulatively in 2013-2017. The CBI forecasts the terms of trade to fall by 2.6% in 2018 and roughly unchanged in 2019, due to generally higher import prices, especially oil, in 2018. However, a sharp fall in oil prices since October 2018 has not led to abating depreciation pressures on the krona.

We forecast the current account deficit to narrow to 2.7% of GDP in 2018 (2017: 3.3%), and further to 1.9% by 2020, as tourism activity slows as described above. Despite the sharp krona depreciation, central bank official international reserves have maintained at a robust 6.7 months of 2018 current external payments in October 2018. On 2 November 2018, the CBI

¹ Includes an expected revision to accounting treatment for a one-off capital transfer to public pension reserves worth 1.4% of GDP, which treats the transfer as GGB line.

Corporate Credit Growth Accelerating



Source: Fitch Ratings, CBI

Commercial Property Prices Overheated, Residential Moderated



Source: Fitch Ratings, CBI

lowered the special reserve requirement ratio to 20% (from 40%), which could lend support to investor appetite for krona assets.

Rising Commercial Indebtedness and Real Estate Price Risks

Commercial real estate prices have been identified by the CBI as a source of financial stability risk in Iceland. Real commercial property prices have risen by 17.8% yoy in 3Q18 driven by stronger rents, and are high relative in a historical context and after controlling for profitability, inflation and building costs. Real estate and construction companies account for a fifth of Icelandic bank loans, exposing the banks to a correction in this market.

Non-financial corporate credit growth has also been very robust at 9% yoy in 2Q18 in real terms, exceeding the pace of growth in the real economy in 2018 and increasing from 5.2% yoy in 3Q17. Household credit grew at a more moderate 3.3% yoy in real terms in 2Q18, having gradually picked up from 2.1% in 3Q17.

Residential real estate price growth eased to 6.0% yoy in January 2019, from a recent peak of 24.2% yoy in July 2017. The cooling off of house price growth corresponds with the slowdown in growth in the tourism sector, which spilled over into the housing market partially through conversion of accommodation properties into private rental apartments.

Despite the build-up of these risks, Icelandic banks are highly capitalised with regulatory capital at 22.9% of risk-weighted assets, and low non-performing loan ratios of 2.6% of total loans in 3Q18. Capitalisation has declined steadily from a peak of 29.4% in 1Q16 due to dividend payouts, but remains high relative to international peers.

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

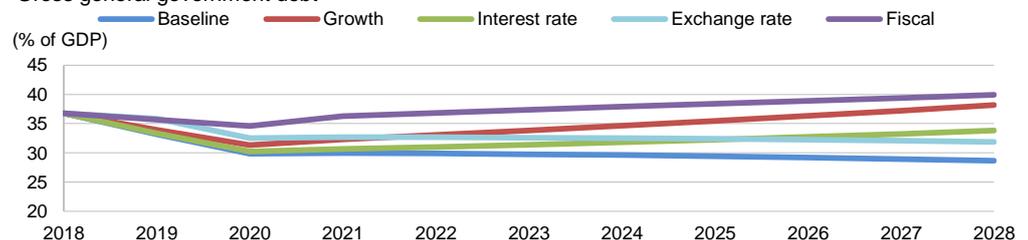
According to Fitch's baseline projections, GGD should fall to 29.9% of GDP by 2020, remaining relatively stable at that level as net government assets are built up in the sovereign wealth fund. The main risk to debt sustainability would be a significant change of fiscal policy direction resulting in a significant fall in the primary budget balances.

Debt Dynamics: Fitch's Baseline Assumptions

	2018	2019	2020	2021	2022	2023	2028
Gross general government debt (% GDP)	36.7	33.2	29.9	30.0	29.9	29.7	28.6
Primary balance (% of GDP)	4.2	4.0	3.7	3.0	2.0	2.0	2.0
Real GDP growth (%)	4.5	3.0	2.6	2.5	2.0	2.0	2.0
Avg. nominal effective interest rate (%)	7.7	7.5	7.3	7.1	7.0	7.0	7.5
Local currency/USD (annual avg.)	104.4	123.6	123.6	123.6	123.6	123.6	123.6
GDP deflator (%)	2.2	3.8	4.1	3.0	2.5	2.5	2.5

Sensitivity Analysis

Gross general government debt



Source: Fitch Ratings, Debt Dynamics Model

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 2.1% lower (half standard deviation lower)
Interest rate	marginal interest rate 250bp higher
Fiscal	no change in primary balance from 2019 level
Exchange rate	30% devaluation at end-2013

Forecast Summary

	2014	2015	2016	2017	2018f	2019f	2020f
Macroeconomic indicators and policy							
Real GDP growth (%)	2.1	4.5	7.4	4.0	4.5	3.0	2.6
Unemployment (%)	5.0	4.0	3.0	2.8	2.8	3.0	3.1
Consumer prices (annual average % change)	1.0	0.3	0.8	-1.6	0.6	1.5	2.0
Short-term interest rate (bank policy annual avg.) (%)	4.8	5.5	5.0	4.0	4.0	4.3	4.5
General government balance (% of GDP)	-0.1	-0.8	12.3	1.5	1.2	1.2	1.2
General government debt (% of GDP)	79.7	66.0	51.7	41.4	36.7	33.2	29.9
ISK per USD (annual average)	116.77	131.92	120.81	106.84	104.42	123.55	123.55
Real effective exchange rate (2000 = 100)	85.3	87.3	97.6	109.4	108.1	111.3	114.7
Real private sector credit growth (%)	-5.7	2.6	3.4	10.5	6.9	4.4	2.9
External finance							
Current account balance (% of GDP)	3.9	5.2	7.5	3.3	2.7	2.5	1.9
Current account balance plus net FDI (% of GDP)	8.1	9.2	11.0	3.7	3.8	3.6	2.8
Net external debt (% of GDP)	398.4	39.7	31.5	30.8	22.7	19.8	14.0
Net external debt (% of CXR)	694.1	68.8	59.1	61.3	46.8	34.8	24.8
Official international reserves including gold (USDm)	4,175.8	5,040.7	7,226.4	6,566.6	6,738.8	7,148.8	7,528.8
Official international reserves (months of CXP cover)	5.3	6.6	9.1	6.9	6.6	6.5	6.4
External interest service (% of CXR)	14.0	9.2	5.6	4.6	3.8	3.4	3.1
Gross external financing requirement (% int. reserves)	871.6	467.8	-23.3	0.0	16.1	5.6	14.2
Real GDP growth (%)							
US	2.5	2.9	1.6	2.2	2.9	2.6	2.1
China	7.3	6.9	6.7	6.9	6.6	6.1	6.1
Eurozone	1.4	2.1	1.9	2.4	2.0	1.8	1.6
World	2.8	2.8	2.5	3.2	3.3	3.1	3.0
Oil (USD/barrel)	98.9	52.4	45.1	54.9	70.0	65.0	57.5

Source: Fitch Ratings

Fiscal Accounts Summary

(% of GDP)	2015	2016	2017	2018f	2019f	2020f
General government						
Revenue	40.7	56.7	42.5	41.3	41.1	41.1
Expenditure	41.5	44.3	41.0	40.1	39.9	39.9
O/w interest payments	4.4	3.9	3.8	3.0	2.8	2.5
Primary balance	3.6	16.2	5.3	4.2	4.0	3.7
Overall balance	-0.8	12.3	1.5	1.2	1.2	1.2
General government debt	66.0	51.7	41.4	36.7	33.2	29.9
% of general government revenue	162.2	91.2	97.3	89.0	80.7	72.6
Central government deposits	19.1	11.4	7.2	6.2	5.8	5.4
Net general government debt	46.9	40.3	34.2	30.5	27.4	24.4
Central government						
Revenue	30.3	45.9	31.2	-	-	-
O/w grants	0.5	0.5	0.4	-	-	-
Expenditure and net lending	30.5	33.9	30.0	-	-	-
O/w current expenditure and transfers	28.7	32.2	28.0	-	-	-
- Interest	4.1	3.5	3.4	-	-	-
O/w capital expenditure	1.8	1.7	2.0	-	-	-
Current balance	1.5	13.7	3.2	-	-	-
Primary balance	3.8	15.5	4.5	-	-	-
Overall balance	-0.3	12.0	1.2	-	-	-
Central government debt	58.3	44.9	34.8	-	-	-
% 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	116,527.0	-	-	-
In USD equivalent (eop exchange rate)	2,368.3	1,796.5	1,115.9	-	-	-
Average maturity (years)	6.6	6.4	6.3	-	-	-
Memo						
Nominal GDP (ISKm)	2,288,020.0	2,502,735.0	2,615,220.0	2,793,314.4	2,985,799.3	3,189,034.7

Source: Fitch Ratings, Ministry of Finance

External Debt and Assets

(USDm)	2013	2014	2015	2016	2017	2018f
Gross external debt	107,547.7	97,968.9	30,419.6	25,790.0	22,215.5	21,226.7
% of GDP	670.8	551.7	175.4	124.5	90.8	79.3
% of CXR	1,103.1	961.1	304.2	233.2	180.5	163.4
By maturity						
Medium- and long-term	74,734.3	70,988.0	19,005.9	24,177.1	22,215.5	21,226.7
Short-term	32,813.4	26,981.0	11,413.8	1,612.9	0.0	0.0
% of total debt	30.5	27.5	37.5	6.3	0.0	0.0
By debtor						
Sovereign	6,305.6	5,275.4	4,496.7	3,881.6	2,760.6	2,760.6
Monetary authorities	1,486.2	697.8	287.2	408.3	405.3	405.3
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	-
Banks	1,268.4	1,179.8	2,172.3	4,209.7	5,753.3	5,714.4
Other sectors	99,973.7	91,513.7	23,750.7	17,698.7	13,701.7	12,751.7
Gross external assets (non-equity)	33,101.4	27,220.6	23,541.9	19,258.1	14,668.4	15,145.6
International reserves, incl. gold	4,237.9	4,175.8	5,040.7	7,226.4	6,566.6	6,738.8
Other sovereign assets nes	0.0	0.0	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	4,779.7	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	15,841.5	9,828.1	5,123.1	5,313.0
Net external debt	74,446.3	70,748.4	6,877.7	6,531.9	7,547.1	6,081.0
% of GDP	464.3	398.4	39.7	31.5	30.8	22.7
Net sovereign external debt	2,087.0	1,098.4	-540.8	-3,348.8	-3,814.5	-3,991.8
Net bank external debt	-2,907.4	-1,910.4	-490.6	2,010.1	2,783.1	2,634.1
Net other external debt	75,266.6	71,560.4	7,909.2	7,870.6	8,578.6	7,438.7
Net international investment position	-65,690.9	-61,342.0	-808.8	661.7	1,303.6	0.0
% of GDP	-409.7	-345.4	-4.7	3.2	5.3	0.0
Sovereign net foreign assets	-2,085.4	-1,097.0	542.3	3,350.4	3,816.3	3,993.6
% of GDP	-13.0	-6.2	3.1	16.2	15.6	14.9
Debt service (principal & interest)	26,683.6	39,061.9	21,356.0	999.7	1,384.3	2,329.7
Debt service (% of CXR)	273.7	383.2	213.5	9.0	11.2	17.9
Interest (% of CXR)	15.9	14.0	9.2	5.6	4.6	3.8
Liquidity ratio (%)	13.1	12.3	14.7	56.3	198.9	234.3
Net sovereign FX debt (% of GDP)	3.6	2.3	-4.8	-18.1	-17.2	-17.7
Memo						
Nominal GDP	16,033.5	17,758.1	17,344.2	20,716.0	24,478.0	26,750.8
Inter-company loans	11,956.4	11,931.0	8,812.7	10,240.5	6,529.1	6,579.1

Source: Fitch Ratings, Central Bank, IMF, World Bank

Balance of Payments

(USDm)	2015	2016	2017	2018f	2019f	2020f
Current account balance	898.2	1,555.7	815.6	778.8	611.4	481.5
% of GDP	5.2	7.5	3.3	2.7	2.5	1.9
% of CXR	9.0	14.1	6.6	6.0	4.5	3.3
Trade balance	-269.4	-841.9	-1,542.2	-1,471.6	-1,700.9	-1,925.6
Exports, fob	4,657.3	4,471.6	4,963.8	5,574.3	5,908.8	6,292.9
Imports, fob	4,926.7	5,313.5	6,506.0	7,046.0	7,609.7	8,218.4
Services, net	1,509.9	2,129.2	2,540.2	2,401.9	2,463.8	2,558.6
Services, credit	4,351.1	5,350.3	6,325.2	6,527.2	6,924.1	7,381.1
Services, debit	2,841.2	3,221.2	3,785.0	4,125.3	4,460.3	4,822.5
Income, net	-51.3	373.0	5.4	14.0	14.0	14.0
Income, credit	881.6	1,043.6	796.0	665.0	665.0	665.0
Income, debit	933.0	670.6	790.6	651.0	651.0	651.0
O/w: Interest payments	923.0	616.5	570.5	491.5	469.6	456.6
Current transfers, net	-291.0	-104.6	-187.9	-165.5	-165.5	-165.5
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	177.3	410.0	380.1
Gross external financing requirement	19,534.8	-1,172.5	-1.9	1,059.5	377.0	1,018.6
Stock of international reserves, incl. gold	5,040.7	7,226.4	6,566.6	6,738.8	7,148.8	7,528.8

Source: Fitch Ratings, IMF

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