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12 September 2016

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Government of Iceland - A3 Stable

Annual Credit Analysis

RATINGS

Iceland

	Foreign Currency	Local Currency
Gov. Bond Rating	A3	A3
Country Ceiling	A3/P-2	A1
Bank Deposit Ceiling	A3/P-2	A1

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OVERVIEW AND OUTLOOK

On 1 September 2016, we upgraded Iceland's government bond and issuer ratings to A3 from Baa2, concluding the review for upgrade that we commenced in June 2016. The outlook is stable. Among Iceland's key credit strengths are its high levels of wealth, which acted as a cushion during the severe adjustment over the last several years, and its extremely robust institutional strength. We also believe that the economic recovery is on a sustainable footing, given moderate growth and full employment.

Moreover, the country's public finances have improved significantly, and the public debt burden has declined considerably (75 percentage points since its 2011 peak). In contrast to many peer countries, Iceland has a fully funded private pension system, which together with favorable demographics bodes well for long-term fiscal sustainability.

The Icelandic authorities have used the shelter of capital controls and corrected many of the weaknesses that contributed to the crisis, including in the area of banking supervision and regulation. Iceland has thus far maintained macroeconomic and financial-sector stability during capital control liberalization, which has progressed over the past year. Residual risks from further liberalization, including potential economic and financial pressures from capital inflows, and political uncertainty in light of the upcoming elections pose the biggest challenges to Iceland's credit profile.

Iceland's rating could be upgraded if the relaxation of capital controls is completed alongside meaningful outperformance in the improvement of government debt metrics. Conversely, downward pressure on Iceland's ratings could develop if economic or financial volatility were to re-emerge and threaten debt sustainability, particularly should Iceland again have to resort to capital controls.

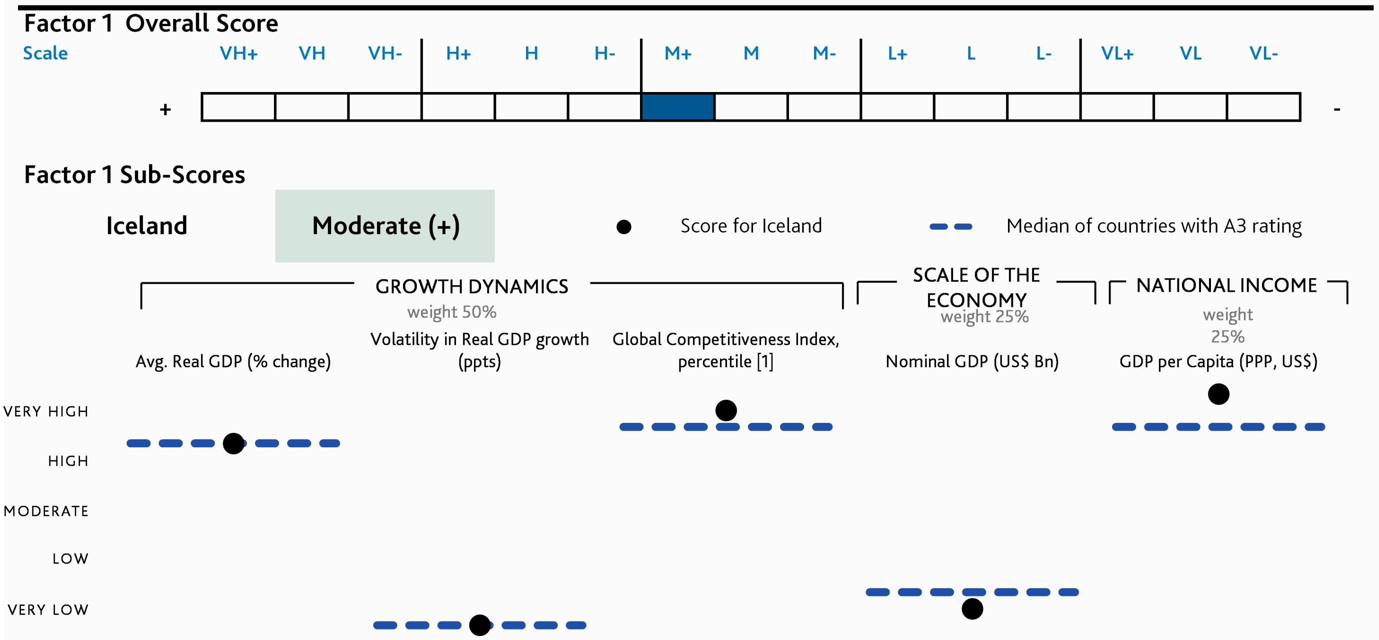
This Credit Analysis elaborates on Iceland's credit profile in terms of Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk, which are the four main analytic factors in Moody's Sovereign Bond Rating Methodology.

This Credit Analysis provides an in-depth discussion of credit rating(s) for Government of Iceland and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

RATING RATIONALE

Our determination of a sovereign's government bond rating is based on the consideration of four rating factors: Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk. When a direct and imminent threat becomes a constraint, that can only lower the preliminary rating range. For more information please see our Sovereign Bond Rating Methodology.

Economic Strength: Moderate (+)



Economic strength evaluates the economic structure, primarily reflected in economic growth, the scale of the economy and wealth, as well as in structural factors that point to a country's long-term economic robustness and shock-absorption capacity. Economic strength is adjusted in case excessive credit growth is present and the risks of a boom-bust cycle are building. This 'credit boom' adjustment factor can only lower the overall score of economic strength.

According to our sovereign bond methodology, Iceland exhibits `moderate (+)' Economic Strength, which is in line with Latvia (A3 stable), Lithuania (A3 stable), Malta (A3 stable), Romania (Baa3 positive), South Africa (Baa2 negative), and the A3 median. It is slightly lower than Czech Republic (A1 stable), Estonia (A1 stable), Thailand (Baa1 stable), and Italy (Baa2 stable) all of which score 'high (-)'.

A wealthy population has weathered the banking and currency crisis

Iceland's population is among the wealthiest in the universe of Moody's-rated sovereigns, despite the significant loss in wealth due to the banking and currency crisis of 2008, with GDP per capita reaching $46,097 on a PPP basis in 2015. This positions Iceland in the same territory as Aa-rated sovereigns (median per-capita GDP in 2015 of $46,783) and as a clear outlier in the A3 rating range ($28,359). Iceland is relatively wealthy compared to its rating peers with the exception of Ireland (A3 positive).

Another key fact when it comes to comparing Iceland's socio-economic situation to that of other European crisis-hit nations is that despite the crisis, its social indicators have actually improved in the past seven years. Already low as in the other Nordic nations, the poverty rate[1] has fallen to 9.6% in 2015 from 10.2% in 2009 and the GINI coefficient narrowed by six percentage points in 2015 from a high of 29.6% in 2009, which compares quite well with the other Nordic countries that are already at the top of the pyramid for income equality.

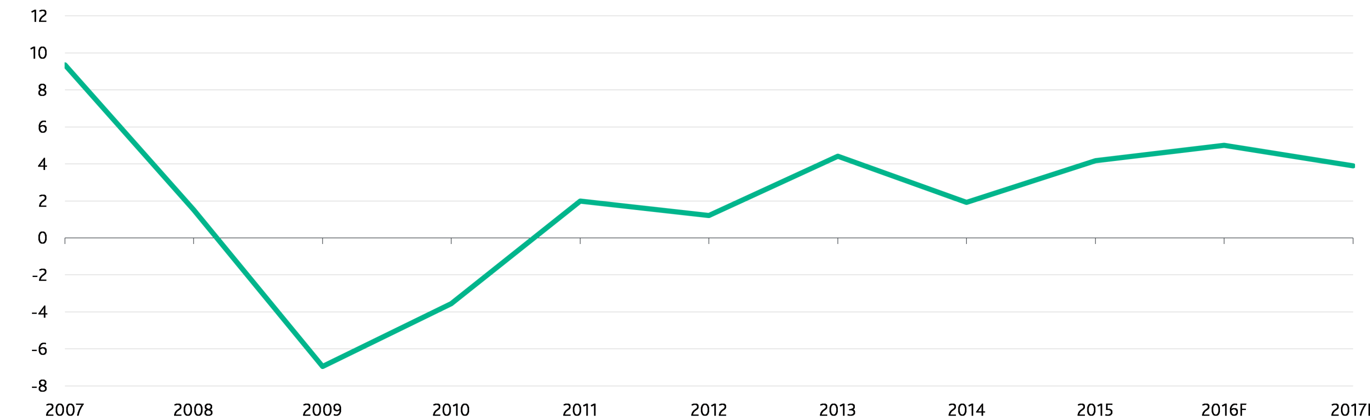
In addition to high income levels, Icelandic households possess substantial pension assets – total financial assets of households stood at ISK 4,562 billion (132% of GDP) at the end 2014 (latest available), of which approximately 76% were pension fund reserves.[2] This is not only positive for the country's long-term underlying fiscal position, in that unfunded pension liabilities are quite minimal, but it has also smoothed the adjustment process as households were able to temporarily withdraw money from their supplementary pension savings for debt repayment and consumption purposes during the crisis years. Offsetting the high wealth levels are the economy's small size and relatively limited diversification, which increase its vulnerability to shocks.

In addition to other factors, Iceland's demographics are more favorable than many other advanced or developing nations because of long working lives, good fertility rates and the flexibility of the labor force. The latter is one reason why high wage awards given in 2015 have not yet led to upward pricing pressures, since when the economy is at full employment such as now, companies bring in workers from other European countries who then go back home when they are no longer needed.

The recovery from a deep financial and economic crisis is in full swing

The Icelandic economy registered a 13.3% cumulative decline in real GDP from late 2008 to the first quarter of 2010 after the banks collapsed, but recovered fully from that loss as of the third quarter of 2013. This is a stronger recovery than recorded by most other European countries vis-á-vis their pre-crisis peaks, with the exceptions of Ireland and the Baltics, which also had severe recessions. The economy grew quite rapidly at 4.2% in 2015 and growth is expected to accelerate to 5% this year. Generous wage awards in last year's three-year agreement and lower than anticipated inflation were partly responsible for a surge in private consumption. Growth in investment, particularly in tourism infrastructure, as well as goods and services exports – namely fish and tourism – also contributed to the rapid expansion in real GDP growth (see box below).

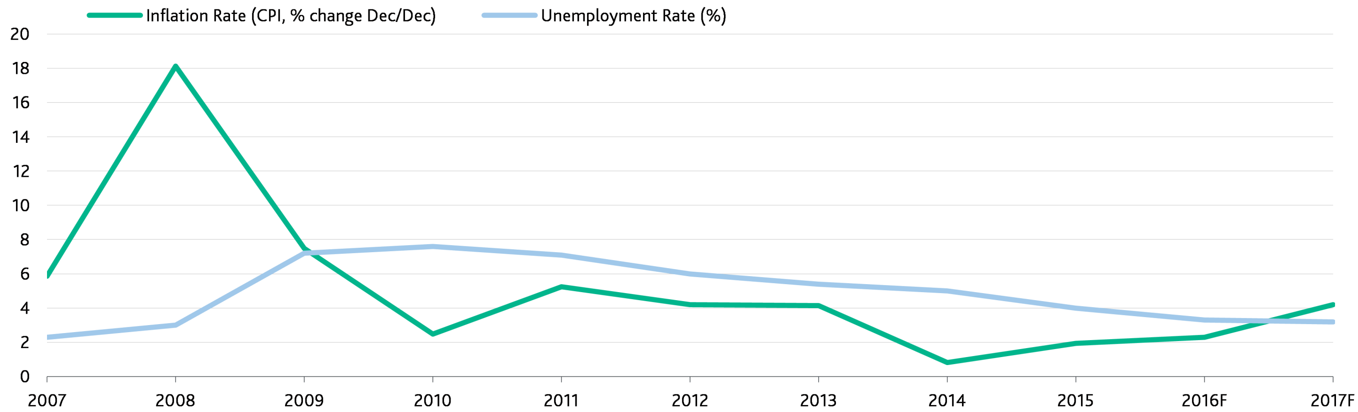
Exhibit 1
Real GDP growth rebounds sharply
(%)



Sources: Haver Analytics/Statistics Iceland, Moody's Investors Service

Labor unrest, which spiked in mid-2015, was quieted when the government used its ability to ban public sector strikes in certain circumstances. Following arbitration procedures, the unions nonetheless were awarded generous wage hikes that greatly increased workers' purchasing power. The hikes partly reflected a catch-up from the crisis period, when workers agreed to forego wage increases, as well as the tight labor market. Unemployment is low at a monthly average of 3.3% over the past 12 months (albeit volatile from month to month), which is considered full employment in a NAIRU sense. As of August 2016, year-on-year inflation was at 0.9%, which is lower than both the 1.7% monthly average over the past 12 months and the official 2.5% target.

Exhibit 2
Inflation and unemployment have stabilized
(%)



Sources: Haver Analytics/IMFWEO, Moody's Investors Service

Among the factors that have restrained growth is the lack of significant investment projects that have broken ground because of the uncertainty surrounding the timing and circumstances of the removal of capital controls. Iceland had attracted and is still the focus of interest of a number of foreign-funded energy-intensive projects, which are ideal to locate in Iceland with its massive reserves of renewable geothermal and hydroelectric energy, proximity to major markets, highly educated workforce and cool climate. Several projects are in the pipeline that will be activated when the capital liberalization is complete.

That said, the traditional industries of fisheries and energy-intensive exports (e.g. aluminum) are currently operating at high capacity, with the country's skillful management of fishing stocks having led to a boom in the valuable cod catch last year and this year. Also, although commodity prices are soft, Iceland's aluminum production plants always operate at full capacity because they are extremely cost- and energy-efficient by other countries' standards.

Growing tourism industry is supporting economy

Iceland's tourism industry has boomed in recent years owing in part to the low real exchange rate, Iceland's natural beauty, and the eruption of the Eyjafjallajökull volcano in 2010, which put the country in newspaper headlines around the globe. The industry has served as a positive external shock to both the economy and the balance of payments, becoming the largest sector of the economy and the single most important source of export revenue. The industry accounted for 31% of all exports of goods and services in 2015, surpassing the historical leading export sector, marine products (23%). Indeed, exports of travel-related services increased by 64% between 2013 and 2015 to ISK 208 billion and continued to climb in the first half of 2016.

Annual tourist arrivals increased by an average of 21% each year between 2011 and 2014 and by 30% last year to reach 1.3 million [3] – nearly four times the Icelandic population – in a trend that shows few signs of relenting. Accordingly, overnight stays reached 6.5 million in 2015, a 19% increase over the prior year, with overnight stays in hotels having increased every month by more than 20% year-on-year since May 2015 to 441,500 in July 2016.

The expansion of tourism has yielded an inflow of much needed foreign currency, given that current account transactions are exempt from the capital controls. Simultaneously increased tourist-related expenditures have benefited government revenues. Value-added tax (VAT) turnover from tourism-related activities increased 16% in 2015, and we expect will continue to expand, owing both to further growth in the industry and the expansion of the tax base. As of January 2016, VAT (at a reduced rate) was extended to a variety of tourism-related activities, including travel agencies, tour operators, reservation services, mineral bath spas, and sea- and land-based passenger transportation.

Employment in the industry has concomitantly swelled, nearly doubling from an average of 11,000 employees in 2009 to just under 20,000 in 2015. In recent years this growth has quickened; total tourism employment has expanded by an average of 18% year-on-year in the first seven months of 2016, with particularly high growth (32%) among travel agencies and tour operators. Given the small size of Iceland's population, the industry has had to rely on foreign labor to staff its growing operations, which provides some cushion against a potential downturn in the industry.

Despite a very positive outlook for the industry, its rapid expansion is not without challenges. The ever expanding inflow of tourists has prompted the need for further infrastructure development, which is currently insufficient to accommodate such massive movements of people, particularly outside of the capital, Reykjavik. However, the permanency of such high levels of tourism – tastes may suddenly sway vacationers to other destinations – limits the logic behind too rapid expansion for fear of investing in infrastructure that will ultimately go unused.

Furthermore, while the construction of hotels, again particularly in the capital, is continuing apace, the insufficiency of the supply of rooms may put pressures on the housing sector, as informal room rental schemes, such as Airbnb, are enticing homeowners to remove properties from the long-term rental market or acquire additional properties for supplementary income.

Although not yet a considerable risk, loans to the industry now constitute roughly 10% of the loan portfolios of Iceland's commercial banks. Should banks become overly concentrated in the industry, a sudden slowdown in tourist inflows could have repercussions on the still-recovering banking sector.

Lastly, the potential negative impact on Iceland's pristine environment – a key draw for tourists – has many in the nature-loving country concerned. Government authorities and interest groups are working to develop a long-term strategy to preserve both the environment and the economic benefits from tourism, including the promotion of sustainable tourism.

Institutional Strength: Very High

Institutional strength evaluates whether the country's institutional features are conducive to supporting a country's ability and willingness to repay its debt. A related aspect of institutional strength is the capacity of the government to conduct sound economic policies that foster economic growth and prosperity. Institutional strength is adjusted for the track record of default. This adjustment can only lower the overall score of institutional strength.

Recovery of institutional strength is cemented with the resolution of the failed banks' estates

We assess Iceland's Institutional Strength as 'very high' in our sovereign bond rating methodology. This assessment has improved over the past several years, reflecting the refinements made to the macroeconomic policy and regulatory framework in the aftermath of the country's 2008 banking system collapse. The massive external imbalances that led to the financial crisis materialized in large part because of the expansion of Iceland's three big banks into offshore activities unrelated to the Icelandic economy itself, exacerbated by positive interest rate differentials due to an overreliance on tight monetary policy to address an overheating economy.

The authorities have since introduced comprehensive reforms intended to prevent such distortions from ever re-emerging, pairing tight fiscal with tight monetary policy and a more flexible exchange rate, partly in conjunction with a three year IMF Stand-By Arrangement adopted in 2008 and subsequent post-program monitoring. Moreover, a number of tough banking rules have been enacted with a view to avoiding the significant currency, interest rate and maturity mismatches that were critical vulnerabilities leading up to the banks' collapse.

Increased focus on macro policy coherence, while high wage increases have yet to boost inflation due to countervailing forces

Arguably the most important measures undertaken since the crisis were the introduction of more stringent supervision and regulation of the banking sector, including tougher reporting requirements and strict limitations on the new banks' scope of activity. There is also greater collaboration between the central bank and the banking regulator, The Financial Supervisory Authority (FME), in addition to the introduction of a Financial Stability Council to oversee the monitoring of systemic risks. These new rules are meant to assure that the new banking system is well capitalized, liquid, and funded primarily by long-term deposits or wholesale funding. Asset quality at the three big banks has also improved significantly, in part thanks to widespread loan restructuring.

The monetary policy framework is based on inflation targeting, and following comprehensive rule changes in 2009 is now much more transparent. Monetary policy is also better aligned with the fiscal policy stance, which has translated into positive but not excessively positive real interest rates in the past few years. After rising into the double digits after the 2008-09 depreciation, inflation came down swiftly and has stayed below the 2.5% target range over the past three years. Last year's four-year wage settlements for the member unions of the largest labor federation, ranging from 21% to 30% depending on where a worker falls in the income spectrum, were expected to lead to much higher inflation. After a brief pickup towards the end of 2015, however, price rises have been moderate (average annual rate of 1.6% over the first eight months of 2016) owing to low oil prices and a further steep appreciation of the krona.

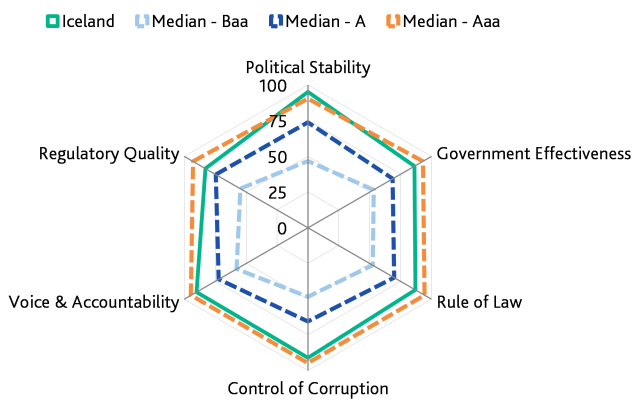
Internal debates have been taking place over the effectiveness of "plain-vanilla" inflation targeting, i.e. relatively weak monetary policy transmission, given the central bank's active intervention to prevent the exchange rate from appreciating further. In addition, the removal of capital controls will undoubtedly create more financial instability for the very small, open economy (the openness ratio is approximately 100%).

The central bank responded within days of the wage settlement in June 2015, hiking interest rates by 50 bps and promising more hikes over the next several months in an attempt to curb inflationary expectations. Subsequently, the key interest rate was increased by another 50 bps in August 2015 and 25 bps in November 2015 to 5.75%. The below-target inflation – in spite of the large wage increases – has been, to a degree, a product of low oil prices and has led to a slower than expected rise in interest rates. Therefore on 24 August, the central bank cut rates, by 50 bps to 5.25%, given expected robust economic growth and the successes of tight monetary policy.

International surveys convey similarly strong assessments of institutional strength

In terms of quantitative indicators, Iceland scores very highly, although the country's relative position worsened for a time after the banks collapsed owing to the deterioration in the macroeconomic situation. In 2014, Iceland ranked at the 86th percentile in the Worldwide Governance Indicators' "Government Effectiveness" and the 87th percentile in "Rule of Law". Although this represents a marginal decline from the prior year, Iceland's rankings remain well above the A and even Aa rating category medians and are more consistent with Aaa median levels (see Exhibit 3) and its highly-rated Nordic peers.

Exhibit 3
Iceland's scores suggest very high levels of institutional strength
(Percentile, 2014)



Sources: Worldwide Governance Indicators, Moody's Investors Service

Iceland benefits from clear competitive strengths in areas such as its high-quality education system, an innovative business sector, an efficient labor market and well-developed infrastructure. Also, Iceland has a long tradition of broad cooperation and consensus on economic matters between government, employer and employee associations, although this cooperation obviously broke down in the latest wage round.

Careful management of capital account liberalization provides further evidence of institutional strength

The normalization of the economic and financial situation in Iceland following its banking crisis and recession will not be complete without the removal of its strict capital account restrictions. The government's decision to proceed with a careful process of capital account liberalization appears to adequately address concerns about the potential economic and financial destabilization that could be inherent in their unwinding.

In addition, the creditors of the failed bank estates turned over considerable financial assets to the Icelandic government that will be used to pay down government debt. The creditors also extended the maturity of the new banks' capital, thereby improving their financial stability. Further, they agreed to write off the old banks' (notional) foreign currency liabilities such that the Icelandic net international investment position (net IIP) shrunk considerably to -5.8% of GDP at the end of December 2015, from a peak of -110% of GDP at the end of 2007 (excluding the net external position of the failed bank estates; which if included led to a decline of the net IIP to a nadir of -660% of GDP in 2009). The resolution of the failed bank estates marked the completion of the first stage of a three stage process toward capital account liberalization.

The Icelandic government also recently finalized the second stage of the capital control liberalization, through a foreign-currency auction and a codification of capital controls legislation. The owners of off-shore ISK, which includes deposits, treasury bills and bonds, and other sequestered assets, were offered the opportunity to participate in a central bank auction in June 2016 to sell their ISK for euro at an ultimate price of ISK 190.

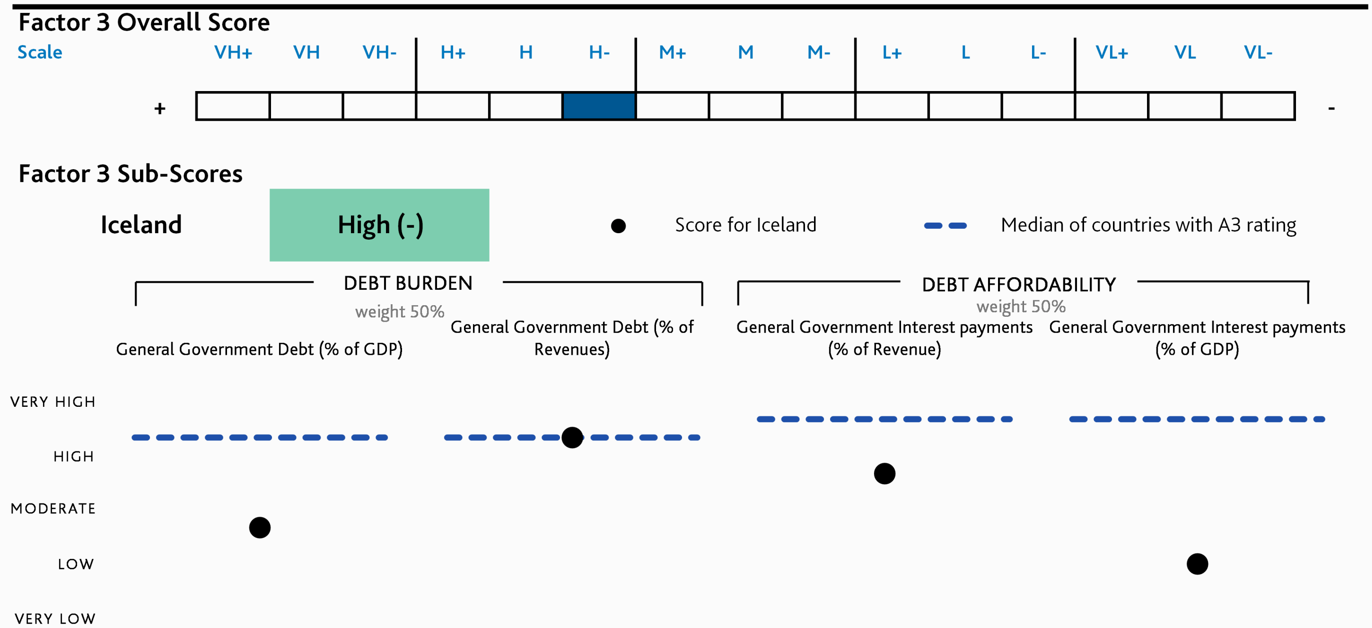
Like the settlement of the failed bank estates last year, the auction was designed to further reduce the overhang of debt left over from the time when the capital controls were put in place. 23 previous auctions had been held to cut the overhang, such that the amount outstanding had dropped from 42.6% of GDP (ISK 657 billion) in 2008 to 13% of GDP (ISK 320 billion) when the auction was held in June this year. Our criteria for success was whether progress would be made in the auction such that future risks to economic and financial stability from the offshore krónur were curbed. This criteria was fulfilled in the sense that the auction cleared about one-third of the overhang and all holders of offshore krónur that wanted to get out of their investments got out.

However, although the number of participants in the auction and subsequent tender was high (1,688 offers were accepted, or 98.4% of offers submitted), the largest holders of offshore krónur demurred from participating leaving approximately ISK 220 billion out of the original ISK 300 billion (13% of GDP) outstanding. Those remaining after the auction are mainly the "big four" investors (two hedge funds and two mutual funds) that are determined to remain in the market under the assumption that capital controls on offshore krónur will be removed sooner rather than later.

The authorities are now focusing on the final stage of the capital account liberalization: gradually lifting restrictions on Icelandic residents' cross-border transactions in ISK, particularly pension funds, before returning to the remaining offshore krónur holders. Legislation submitted to the Icelandic parliament on 17 August 2016 allows for a significant expansion of residents' access to the onshore foreign exchange market for foreign purchases and investments at the same time that the authorities' ability to monitor capital flows will be enhanced.

Up until now, the onshore FX market has been restricted solely to current-account transactions, the volumes of which were themselves limited in respect of various cross-border expenditures, such as large purchases of capital goods or obtaining foreign exchange for travel and living expenses abroad, among others. The incremental liberalization for both current and capital account cross-border trades will begin upon the bill's approval, likely within a few weeks, with a further easing of controls scheduled by 1 January 2017.

Fiscal Strength: High (-)



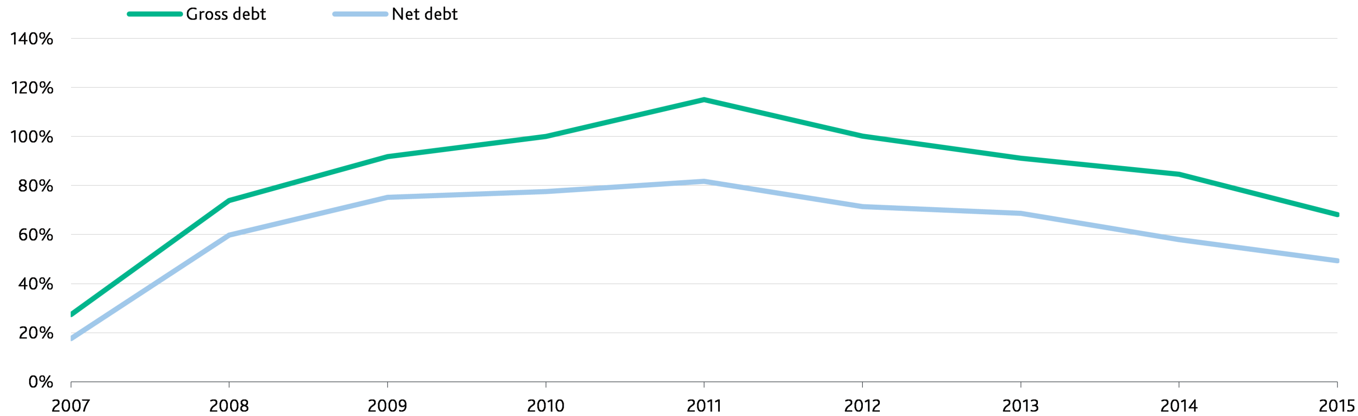
Fiscal strength captures the overall health of government finances, incorporating the assessment of relative debt burdens and debt affordability as well as the structure of government debt. Some governments have a greater ability to carry a higher debt burden at affordable rates than others. Fiscal strength is adjusted for the debt trend, the share of foreign currency debt in government debt, other public sector debt and for cases in which public sector financial assets or sovereign wealth funds are present. Depending on the adjustment factor the overall score of fiscal strength can be lowered or increased.

We consider Iceland's Fiscal Strength to be `high (-)'. Although the government's debt metrics are still moderately higher than peers – debt to GDP was 68.2% in 2015 versus 42.8% for the A3-median – Iceland has made substantial progress in reducing its debt in recent years. Our methodology provides two notches of uplift to government fiscal strength for the significant reduction. Additionally, the government’s new budget laws require that it run consistent and substantial primary surpluses, which further supports the improvement in fiscal strength.

Government debt load is lightening, thanks to virtuous debt dynamics

The government’s own debt has dropped from 115.1% of GDP at its 2011 peak to 68.2% of GDP at the end of 2015. The improvement is a consequence of favorable debt dynamics (i.e. strong growth of nominal GDP) as well as the early payment of nearly all of the multilateral and bilateral financial support the country received in 2009. Moreover, Iceland’s fiscal framework is being strengthened with the introduction of new restrictions being placed on budget balances and debt.

Exhibit 4
Government's gross and net debt positions continue to improve
(% of GDP)



Sources: Statistics Iceland, Moody's Investors Service

We expect the debt burden will continue to decline, as fiscal surpluses and one-off revenues, such as the stability contributions from the failed bank estates, are used to reduce the absolute level of outstanding general government debt. Additionally, the government's debt reduction will be accomplished by only partially rolling over maturing debt in the next few years, in the process drawing down some of its accumulated financial assets. As a consequence, we expect that the government's net debt position will improve more gradually than its gross debt position, which will also benefits from primary budget surpluses. The cut in debt will also result in lower interest costs, which we anticipate will fall to 6.5% of revenues in 2017 from 10.5% in 2015.

Debt dynamics will also benefit from economic growth, which we expect will be quite rapid at 5% in 2016 and 3.9% next year before moderating to between 3% and 3.5% thereafter, roughly twice the pace of the euro area. Combined with the government's anticipated surpluses, strong nominal growth is likely to keep debt on a downward trajectory for the foreseeable future.

Introduction of consensus-based fiscal rules further strengthens the government's debt dynamics

A new Organic Budget Law (OBL) was approved at the end of 2015. The objective of the law is "to ensure meticulous preparation of strategies in fiscal policy, to create a clearer vision of the long-term objectives of fiscal policy, to clarify the accountability of executive powers, to tighten discipline and firmness in public financial management and to improve supervision and budget execution."[4] The law is extremely comprehensive, including contingencies and provisions for all imaginable scenarios. Consultation and cooperation among all levels of government prior to preparation of the medium-term budget are stipulated, an element in the process that is clearly intended to ensure that such fiscal problems as emanated from the municipal sector during and after the crisis will be avoided.

The OBL envisions a number of fiscal rules that should strengthen financial discipline, once implemented:

» A cumulative general government surplus is mandated over any five-year period

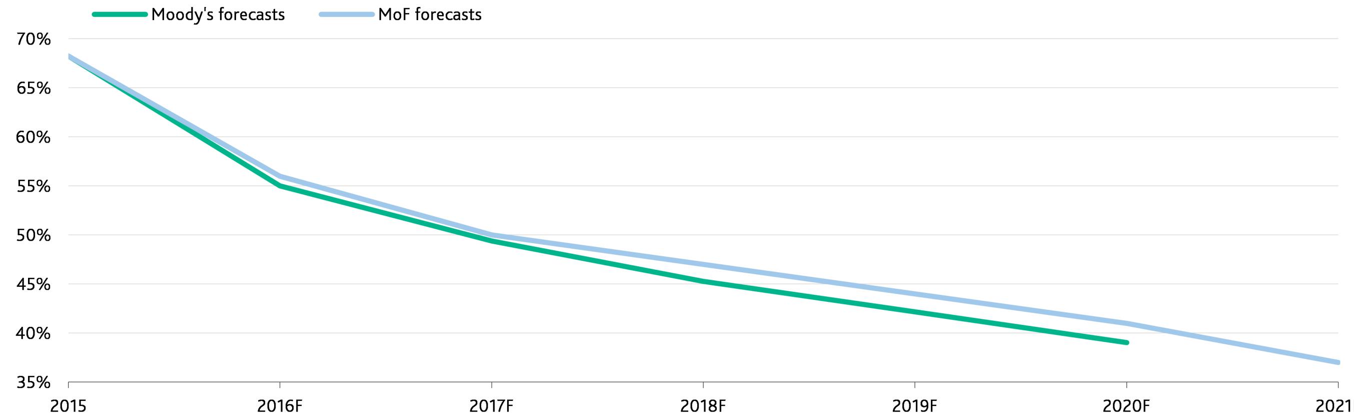
» Overall general government financial deficit in any single year is never to exceed 2.5% of GDP

» The net general government debt to GDP ratio (gross debt less deposits) will be reduced to below 30% and should not exceed that level

» BUT if the debt ratio rises above 30% (presumably for an exogenous reason such as global recession), it should be reduced by at least 5% every year (1/20 of the difference between actual levels and the target annually) thereafter

With the strictures imposed by the OBL, the five-year Fiscal Strategy plan and related tax reform for 2017-21 envisions a reduction in the gross general government debt ratio from 68.2% of GDP at the end of 2015 to 37% of GDP by the end of 2021. Given the scale of the planned decline, this would involve reducing the nominal level of debt as well as the ratio to GDP, which is made possible both by the debt dynamics and the use of the proceeds from last year's resolution of the failed bank estates to pay down debt directly.

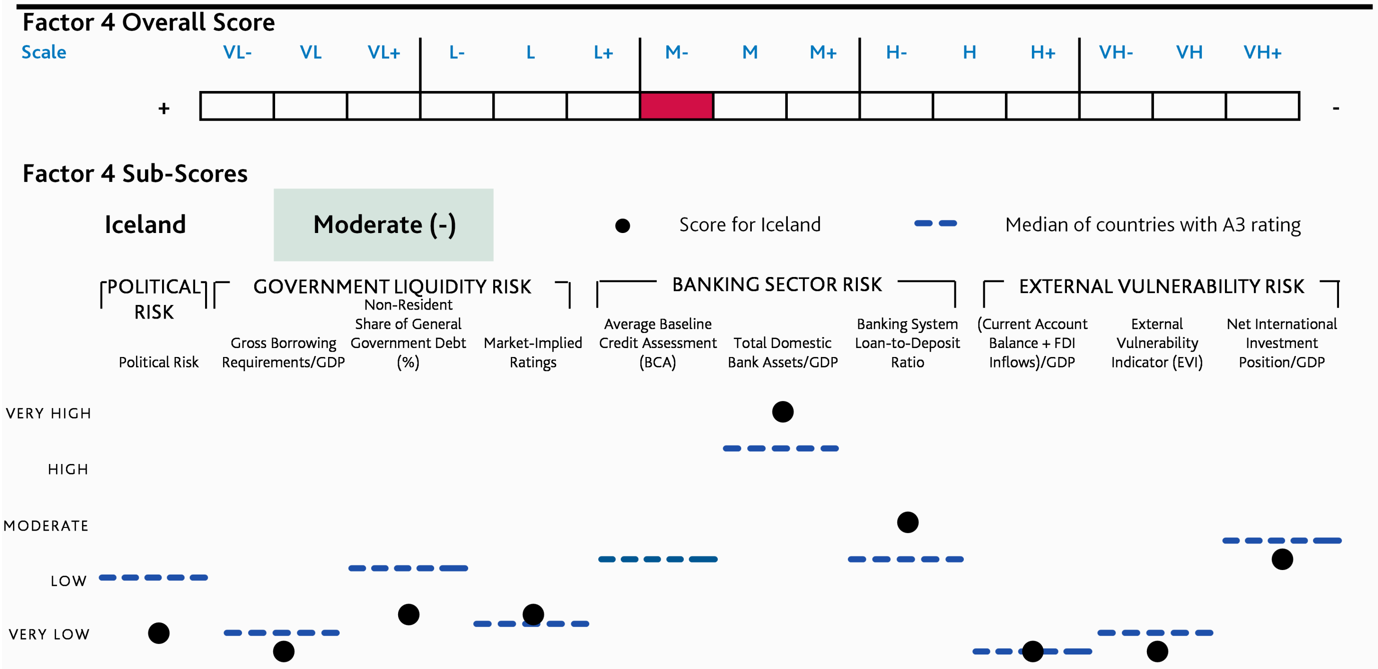
Exhibit 5
We expect the debt burden will continue to fall
(General government gross debt as a % of GDP)



Sources: Ministry of Finance, Moody's Investors Service

That said, the government's contingent liabilities are very large and mainly arise from its guarantee for Housing Financing Fund (HFF) liabilities. As of the second quarter of 2016, outstanding guarantees to HFF were ISK 835 billion (37% of GDP), constituting 76% of all state guarantees. A mitigating factor is the significant financial assets that the government has acquired as part of the recapitalization of the "new" banking system, which will be used to further lower gross government debt in the next two years.

Susceptibility to Event Risk: Moderate (-)



Susceptibility to Event Risk evaluates a country's vulnerability to the risk that sudden events may severely strain public finances, thus increasing the country's probability of default. Such risks include political, government liquidity, banking sector and external vulnerability risks. Susceptibility of Event Risk is a constraint which can only lower the preliminary rating range as given by combining the first three factors.

Financial sector risks have moderated, but the banking sector still needs scrutiny

We assess Iceland's Susceptibility to Event Risk as `moderate (-)', mainly reflecting the risks to economic and financial stability emanating from the process of capital control liberalization. Risks to financial stability from the banking sector have diminished enormously since the 2008 banking sector crisis. In our view, the banking system should be able to withstand the relaxation of capital controls, as the central bank and the banking regulator require the banks to maintain very high levels of liquidity and capital and their activities are restricted entirely to the domestic economy. Political risk and government liquidity risk, at 'very low' and 'very low (-)', respectively, pose very minimal risks to the sovereign.

'Moderate (-)' Banking Sector Risk

Financial system risks have diminished since the collapse of the banks in 2008, but they are still present as more work needs to be done on strengthening the power of the supervisors and regulators and reducing the ongoing gaps in financial safety nets, deposit insurance and bank resolution frameworks. The improvements thus far include the successful resolution of the failed bank estates last year without incurring fresh instability for the banking system or exchange rate.

The banking sector is highly capitalized (the big three maintain capital adequacy levels approaching 30%) with strong liquidity buffers and high but declining NPLs. Risks posed by foreign contractual debt service have declined as the external debt overhang has shrunk, so that the debt service profile is no longer considered to be a key risk to financial stability. In addition, one of the new banks has accessed the international capital markets twice in the past year at a very favorable interest rate, suggesting that market confidence in Icelandic banks has been at least partially restored.

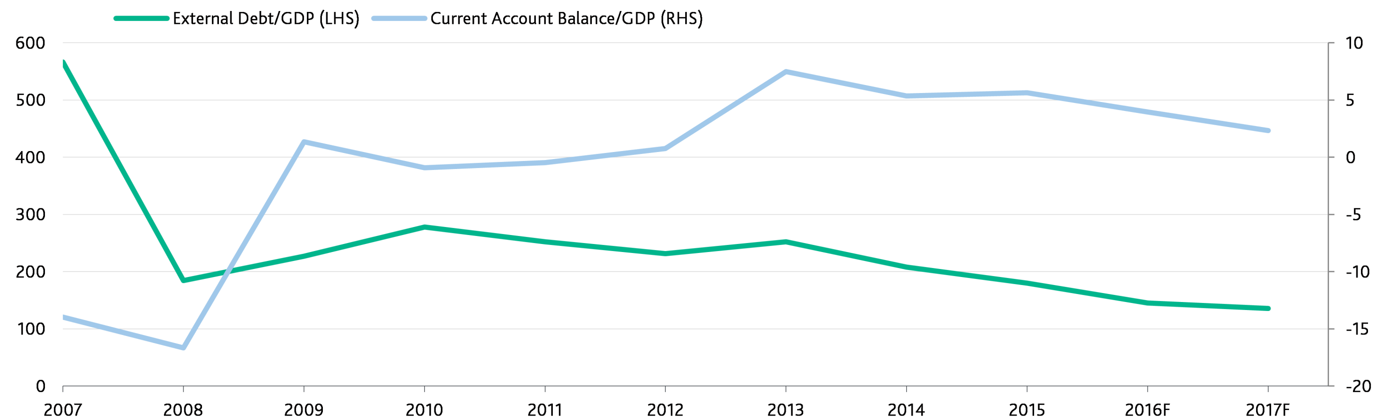
Moreover, domestic households and corporates to which the banks lend continue to deleverage significantly and now are in better shape than their mainland European counterparts. Bankruptcies also continue to decline (587 firms were declared bankrupt in 2015, or less than 1% of all registered firms), the lowest level of bankruptcies since 2007 (when 2.0% of firms declared bankruptcy, compared to a peak of 4.6% in 2011).

'Moderate (-)' External Vulnerability Risk

Iceland's economy was overheating before the crisis, an obvious symptom of the very large current account deficits between 10% and 23% of GDP registered in 2004-08. Immediately upon the imposition of capital controls and the non-payment of the significant external liabilities that were held by the failed banks, as well as because of the very large depreciation of the currency against other major currencies and the domestic recession, the underlying current account deficit (excluding interest and payments owed on the failed banks) moved into a significant annual surplus.

The current account surplus position is expected to be sustained thanks to a number of factors, including improved terms of trade because of lower oil prices and the fact that most of the country's exports are dollar-denominated. An important element to this turnaround is the booming tourism sector, which has more than doubled in the past five years to over 1.3 million tourist arrivals. Also, both of the traditional goods export sectors are also expanding strongly in volume terms, and marine product prices have also been rising in recent years. With the resolution of the failed banks' estates, the underlying current account position has become the actual current account position.

Exhibit 6
The current account and external debt position have improved considerably
(%)



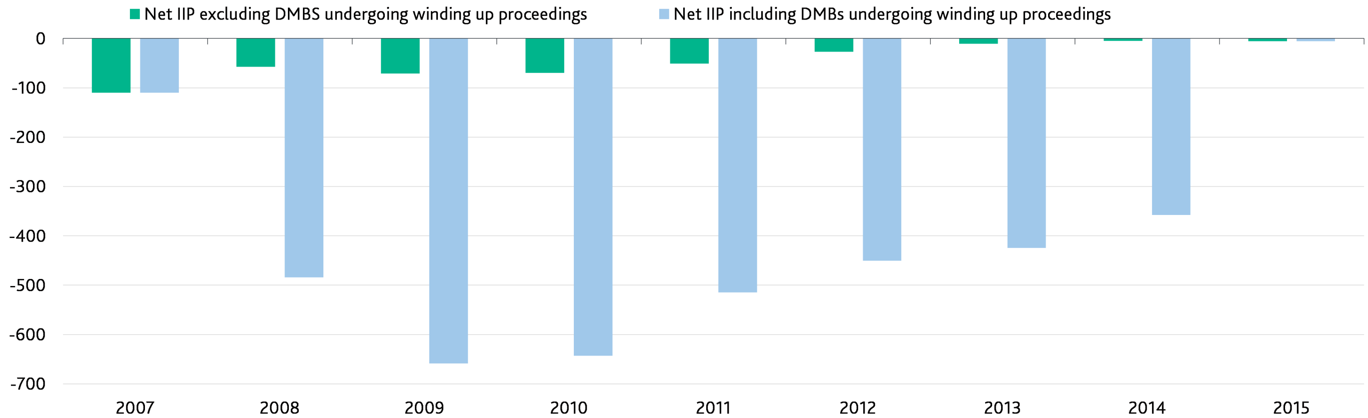
Source: Moody's Investors Service

Weak competitiveness represents the most significant obstacle to the sustainability of Iceland's external position, which was further stretched by last year's generous four-year wage agreement. That said, the composition of Iceland's specialized and niche exports should assure continued surpluses, although we expect them to shrink gradually as domestic demand strengthens and capital controls are fully dismantled.

Impact of the capital control liberalization on Iceland's net international investment position

After the collapse of its banking system, in part due to the depreciation of the króna, Iceland's net international investment position (net IIP) widened sharply, from -57.2% of GDP in 2008 to -70.8% of GDP in 2009. If the external liabilities of the failed banks were taken into account, the external liabilities dwarfed the economy's size by more than 6.5 times. However, Iceland's net IIP has improved significantly in the years since the crisis due to significant current account surpluses facilitating paying down external debt, rising prices in foreign asset markets increasing the value of Iceland's foreign assets, and the write-downs of debt owned by the failed banks in winding-up proceedings. Given the resolution of the failed bank estates last year, Iceland's net IIP improved sharply to -5.8% of GDP at the end of 2015.

Exhibit 7
Net IIP has improved following the resolution of the failed bank estates
(% of GDP)



Sources: Central Bank of Iceland, Moody's Investors Service

The fall in net IIP represents a substantial reduction from the inflated position prior to the winding-up proceedings and from Iceland's net IIP in the years leading up to the financial crisis. Additional external adjustment has taken place as a consequence of the offshore krónur auction and in future, will be affected by the reallocation of domestic portfolios once the capital controls on residents have been reduced and eventually removed.

The government also introduced a new "capital flow mechanism" to protect economic and financial stability in June. Iceland has a very small economy with its own currency and a monetary policy that is significantly tighter than in the rest of the advanced world. Having experienced a deep financial crisis prompted in large part by the carry trade that formed to take advantage of interest arbitrage, the authorities are determined to prevent the banking system from becoming too large or externally financed/focused as well as dissuading speculative capital inflows.

New political parties likely to present a tough challenge ahead of next election, but political risks remain 'very low'

In the 2013 election, voters returned the long-serving center-right Independence Party-Progressive Party coalition to office after a single term for the Social Democrats. The Social Democrats were elected in 2009 after their predecessors – who had been in office for more than a decade prior to the banking collapse and were roundly criticized for failing to avoid the crisis – were forced to step down as a consequence of mass demonstrations, which at that time were unprecedented in the consensus-oriented nation.

The return to office of the IP-PP coalition was not as much of a surprise as it might appear because Iceland traditionally elects more centrist-leaning governments. In addition, the parties promised that if they were elected, they would introduce measures to ease the repayment terms of mortgages denominated in foreign currency by forcing them to be converted into krónur. Once elected, the coalition followed through on its promises, part of the reason behind the relatively quick recovery of private sector confidence and consumption.

Despite returning the conservative coalition to office in 2013 election, however, three MPs from a newly formed party in Iceland, the Pirate Party, were also elected to the 63-member Althingi. The Pirate Party is part of an international movement of parties of the same name with similar agendas, mainly focused on individual privacy on the internet and in other aspects of life. Then in late May, yet another new political party, Viðreisn or "Revival" in English, was formally established. Revival is in favor of the country joining the EU and adopting the euro. Following the crisis, Iceland initiated membership talks with the EU, which were quickly advanced because of its longtime EEA status but Iceland later dropped the talks as the European crisis deepened.

The Panama Papers scandal, which broke in the early spring this year, led to the resignation of Prime Minister Sigmundur Davíð Gunnlaugsson in April amid popular demands for new elections. The calls for immediate elections were rejected, and the coalition headed by former fisheries minister and new prime minister with its strong majority easily won a vote of confidence. Still, government leaders committed to holding an early parliamentary election once the auction of the offshore krónur is completed and any initial steps to remove controls on residents are introduced.

The forthcoming election, which will be held on 29 October 2016, is expected to yield a shake-up in the government in the aftermath of Prime Minister Gunnlaugsson's resignation, particularly following the presidential election where outsider Guðni Jóhannesson was elected after an extremely brief campaign in June. Although the Pirate Party's support has slipped in recent polls to just over 22% of the vote, roughly 2 percentage points behind the Independence Party, compared to 43% in the initial aftermath of the Panama Papers scandal, we expect that it may be in a position to form Iceland's next government.

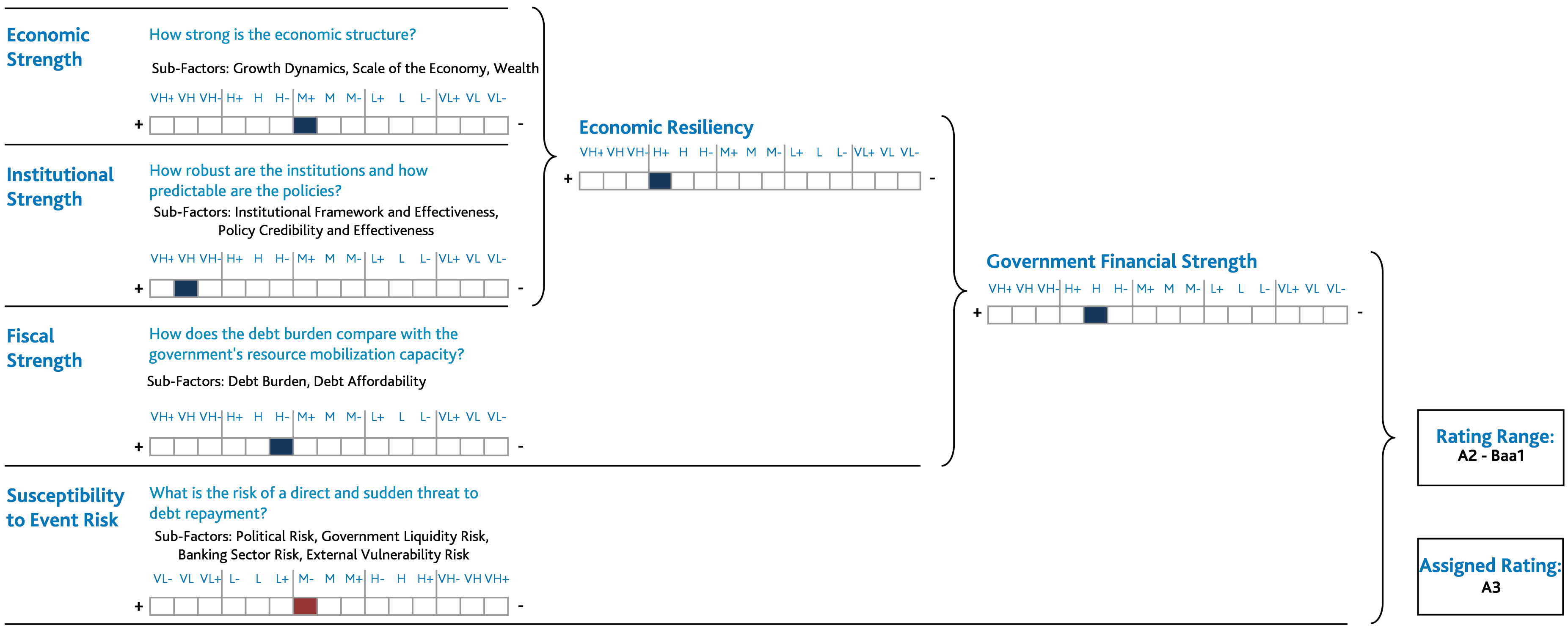
Based on the political debate surrounding the capital account liberalization strategy, we do not perceive a threat to prudent management of public finances should the Pirate Party be part of the next government. That said, in any such emergence of an untested group, the possibility of a political shake-up in a consensus-based society such as Iceland's needs to be followed closely.

Rating Range

Combining the scores for individual factors provides an indicative rating range. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information please see our Sovereign Bond Rating Methodology.

Exhibit 8

Sovereign Rating Metrics: Government of Iceland



Comparatives

This section compares credit relevant information regarding Iceland with other sovereigns rated by Moody's Investors Service. It focuses on a comparison with sovereigns within the same rating range and shows the relevant credit metrics and factor scores.

Despite being a relatively small economy, Iceland's Economic Strength score of 'moderate (+)' is on par with the A3 and European medians, driven by high wealth and relatively strong growth. Institutional Strength remains the strongest aspect of Iceland's credit profile, where its score of 'very high' is on par with credits in the Aaa-Aa range, driven by extremely robust institutional framework and effectiveness. Policy credibility and effectiveness, however, somewhat underperforms, owing to high inflation volatility. Fiscal Strength remains on par with peers. The debt burden and debt affordability remain moderate; however, they have demonstrated a considerable decline in recent years. Susceptibility to Event Risk is driven by the banking sector and external vulnerabilities, and with a score of 'moderate (-)' is on par with A3 peers.

Exhibit 9

Iceland Key Peers

	Year	Iceland	Malta	Mauritius	Slovenia	Turkey	Ireland	A3 Median	Europe & Central Asia Median
Rating/Outlook		A3/STA	A3/STA	Baa1/STA	Baa3/STA	Baa3/RUR-	A3/POS	A3	Baa2
Rating Range		A2 - Baa1	A1 - A3	A2 - Baa1	Baa2 - Ba1	Baa1 - Baa3	A1 - A3	A1 - A3	Baa1 - Baa3
Factor 1		**M+**	**M+**	**M**	**M**	**H**	**H**	**M+**	**M+**
Nominal GDP (US$ Bn)	2015	16.8	9.8	11.5	42.8	718.2	283.8	41.2	76.7
GDP per Capita (PPP, US$)	2015	46,097	35,826	19,509	31,007	20,438	55,533	28,359	27,145
Avg. Real GDP (% change)	2011-2020	3.2	3.5	3.6	1.1	3.6	5.0	3.5	2.0
Volatility in Real GDP growth (ppts)	2006-2015	4.5	2.3	1.6	4.3	4.1	8.9	4.5	3.5
Global Competitiveness Index, percentile [1]	2015	73.6	57.0	58.7	47.3	54.3	78.0	67.5	61.0
Factor 2		**VH**	**H+**	**VH-**	**H**	**M**	**VH**	**H+**	**H+**
Government Effectiveness, percentile [1]	2015	86.9	72.3	73.8	70.0	58.4	89.2	72.3	66.1
Rule of Law, percentile [1]	2015	87.6	82.3	73.0	75.3	50.0	88.4	71.5	70.7
Control of Corruption, percentile [1]	2015	91.5	73.8	62.3	67.6	47.6	87.6	63.8	61.5
Avg. Inflation (% change)	2011-2020	3.2	1.8	3.1	1.0	8.0	1.3	2.5	1.7
Volatility in Inflation (ppts)	2006-2015	3.7	1.3	3.0	1.8	1.3	2.8	2.8	2.0
Factor 3		**H-**	**H-**	**M**	**M-**	**H-**	**M**	**H-**	**H-**
Gen. Gov. Debt/GDP	2015	68.2	63.8	58.6	83.1	32.9	78.7	42.8	56.4
Gen. Gov. Debt/Revenues	2015	162.2	152.6	281.1	184.5	81.7	285.5	162.2	143.3
Gen. Gov. Interest Payments/Revenue	2015	10.5	6.2	11.7	6.6	7.0	9.6	7.2	4.2
Gen. Gov. Interest Payments/GDP	2015	4.4	2.6	2.4	3.0	2.8	2.6	1.8	1.6
Gen. Gov. Financial Balance/GDP	2015	-0.5	-1.5	-1.4	-2.9	-0.6	-1.9	-1.9	-2.0
Factor 4		**M-**	**L+**	**L+**	**M-**	**H-**	**M**	**M-**	**M-**
Current Account Balance/GDP	2015	5.6	2.6	-4.9	5.2	-4.5	10.2	0.7	0.0
Gen. Gov. External Debt/Gen. Gov. Debt	2015	36.1	10.4	23.1	72.2	38.2	70.8	36.1	60.2
External Vulnerability Indicator	2017F	48.2	--	9.5	--	191.4	--	57.3	110.4
Net International Investment Position/GDP	2015	-5.8	45.3	--	-38.8	-51.2	-208.0	-33.6	-47.3

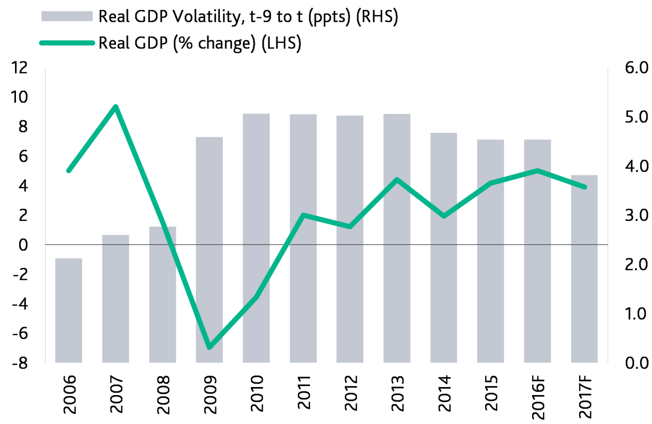
Notes:
[1] Moody's calculations. Percentiles based on our rated universe.
Sources: Moody's Investors Service

Chart Pack

Iceland

Exhibit 10

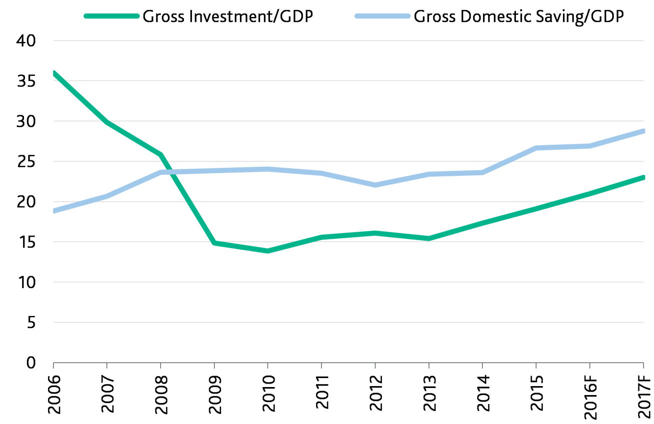
Economic Growth



Source: Moody's Investors Service

Exhibit 11

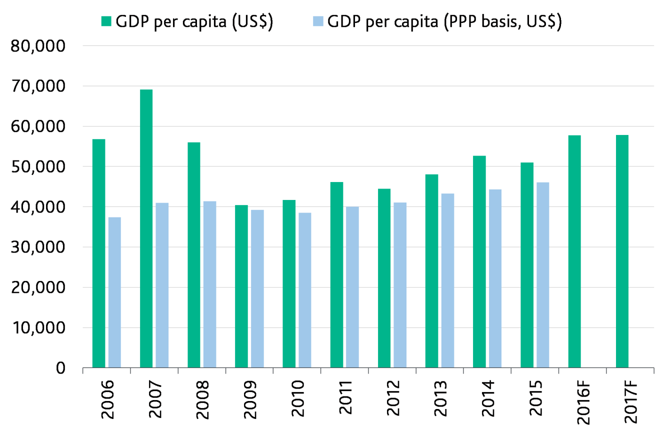
Investment and Saving



Source: Moody's Investors Service

Exhibit 12

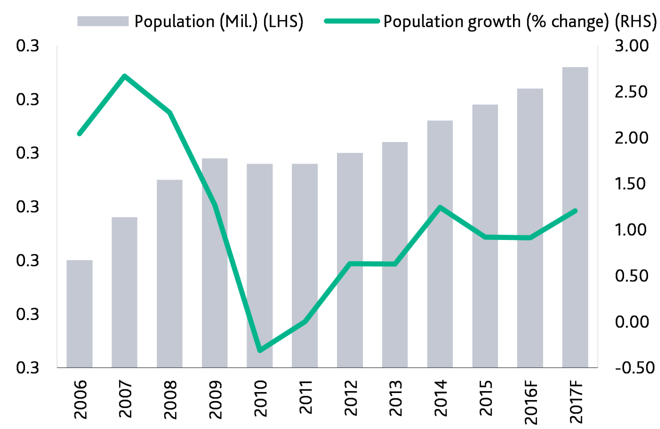
National Income



Source: Moody's Investors Service

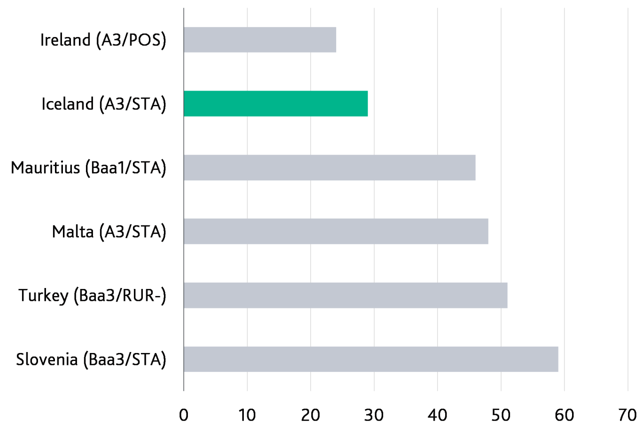
Exhibit 13

Population



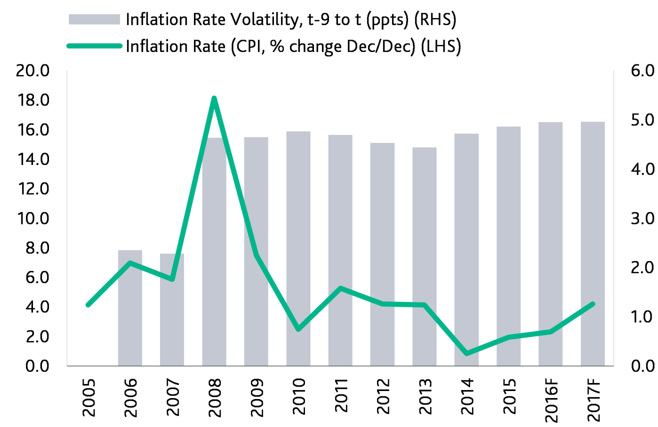
Source: Moody's Investors Service

Exhibit 14
Global Competitiveness Index
Rank 24 out of 140 countries



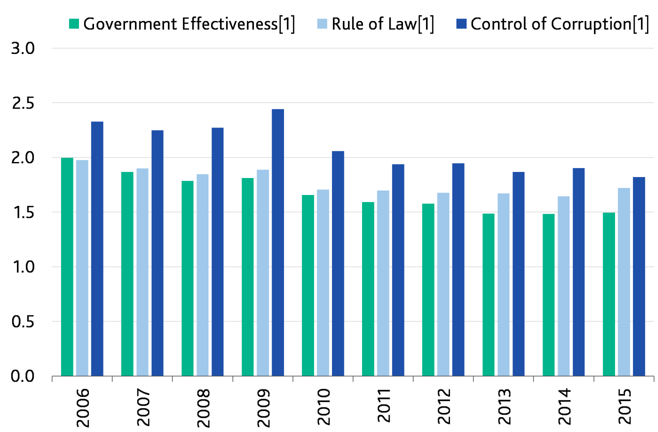
Source: World Economic Forum

Exhibit 15
Inflation and Inflation Volatility



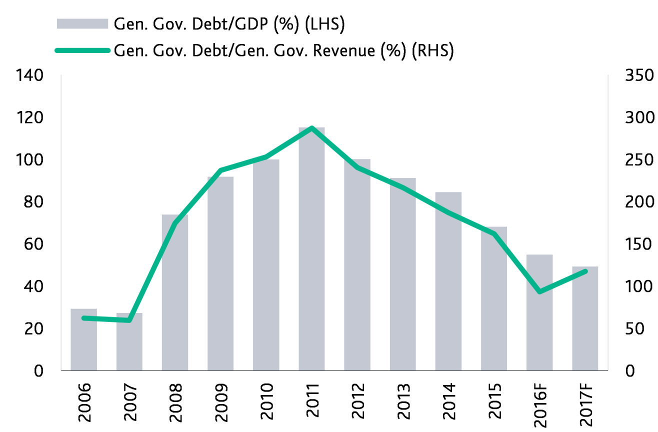
Source: Moody's Investors Service

Exhibit 16
Institutional Framework and Effectiveness



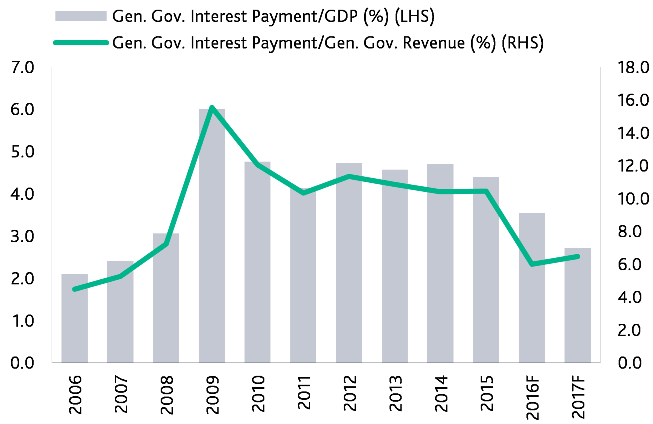
Note:
[1] Composite index with values from about -2.50 to 2.50: higher values correspond to better governance.
Source: Worldwide Governance Indicators

Exhibit 17
Debt Burden



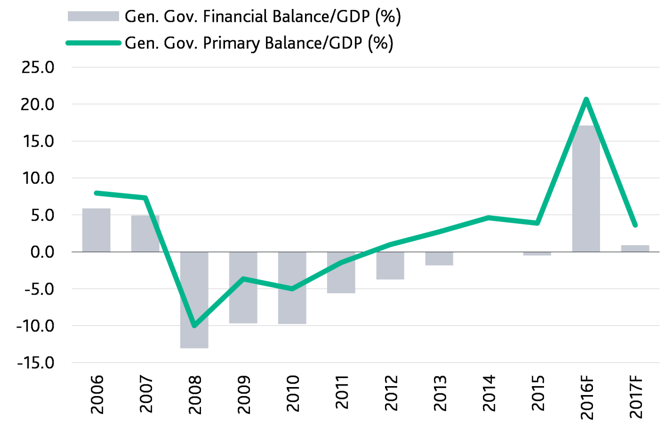
Source: Moody's Investors Service

Exhibit 18
Debt Affordability



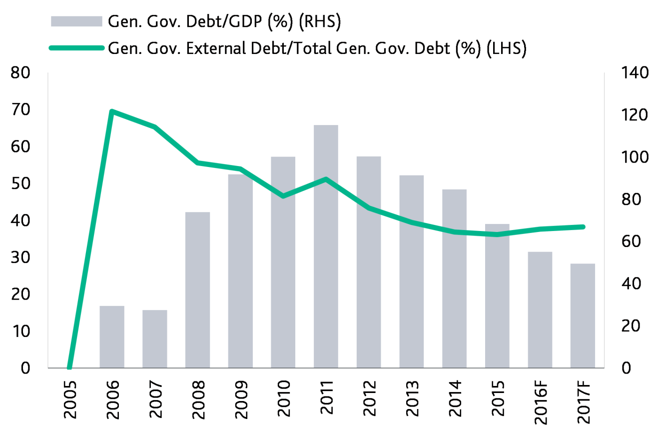
Source: Moody's Investors Service

Exhibit 19
Financial Balance



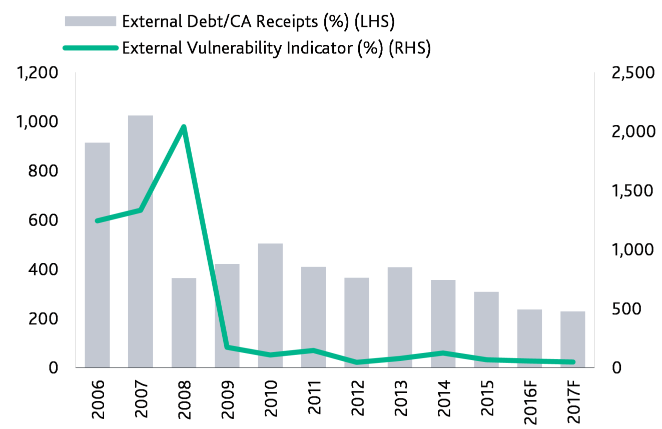
Source: Moody's Investors Service

Exhibit 20
Government Liquidity Risk



Source: Moody's Investors Service

Exhibit 21
External Vulnerability Risk



Source: Moody's Investors Service

Rating History

Exhibit 22
Iceland

	Government Bonds			Foreign-Currency Ceilings				
	Foreign Currency	Local Currency	Outlook	Bonds & Notes		Bank Deposit		Date
				Long-term	Short-term	Long-term	Short-term	
Rating Raised	A3	A3	Stable	A3	--	A3	--	September-16
Outlook changed	Baa2	Baa2	RUR-	Baa2	P-2	Baa2	P-2	June-16
Rating Raised	Baa2	Baa2	--	Baa2	--	Baa2	--	June-15
Outlook changed	Baa3	Baa3	Stable	--	--	--	--	February-13
Rating Lowered	--	--	--	Baa3	--	--	--	November-12
Outlook changed	Baa3	Baa3	Negative	--	--	--	--	July-10
Outlook changed	Baa3	Baa3	Stable	--	--	--	--	April-10
Outlook changed	Baa3	Baa3	Negative	--	--	--	--	April-10
Outlook changed	Baa3	Baa3	Stable	--	--	--	--	November-09
Rating Lowered	Baa3	Baa3	--	Baa2	P-3	Baa3	P-3	November-09
Rating Lowered	Baa1	Baa1	Negative	A2	P-2	Baa1	P-2	December-08
Rating Lowered & Review for Downgrade	A1	A1	RUR-	Aa1	--	A1	--	October-08
Review for Downgrade	Aa1	Aa1	RUR-	--	--	--	--	September-08
Rating Lowered	Aa1	Aa1	Stable	--	--	Aa1	--	May-08
Outlook Changed	Aaa	Aaa	Negative	--	--	--	--	March-08
Rating Raised	Aaa	--	Stable	Aaa	--	Aaa	--	October-02
Rating Assigned	--	Aaa	--	--	--	--	--	July-97
Rating Raised	Aa3	--	Stable	Aa3	--	Aa3	--	July-97
Review for Upgrade	A1	--	RUR+	--	--	--	--	June-97
Outlook Assigned	--	--	Positive	--	--	--	--	March-97
Rating Raised	A1	--	--	A1	--	A1	--	June-96
Review for Upgrade	A2	--	RUR+	--	--	--	--	April-96
Rating Assigned	--	--	--	--	--	A2	P-1	October-95
Rating Assigned	--	--	--	--	P-1	--	--	October-90
Rating Assigned	A2	--	--	A2	--	--	--	May-89

Annual Statistics

Exhibit 23
Iceland

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016F	2017F
Economic Structure and Performance												
Nominal GDP (US$ Bil.)	17.0	21.3	17.6	12.9	13.3	14.7	14.2	15.5	17.2	16.8	19.2	19.4
Population (Mil.)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
GDP per capita (US$)	56,811	69,140	56,001	40,398	41,682	46,147	44,433	48,072	52,698	51,002	57,725	57,831
GDP per capita (PPP basis, US$)	37,414	40,992	41,367	39,244	38,508	39,980	41,079	43,272	44,317	46,097	--	--
Nominal GDP (% change, local currency)	13.8	14.0	13.7	2.7	1.7	5.0	4.5	6.3	6.1	10.3	8.2	7.5
Real GDP (% change)	5.0	9.4	1.5	-6.9	-3.6	2.0	1.2	4.4	1.9	4.2	5.0	3.9
Inflation (CPI, % change Dec/Dec)	7.0	5.9	18.1	7.5	2.5	5.3	4.2	4.1	0.8	1.9	2.3	4.2
Gross Investment/GDP	36.0	29.8	25.9	14.9	13.9	15.6	16.1	15.4	17.3	19.1	21.0	23.0
Gross Domestic Saving/GDP	18.8	20.7	23.7	23.9	24.1	23.5	22.1	23.4	23.6	26.7	26.9	28.8
Nominal Exports of G & S (% change, US$ basis)	3.8	33.9	2.4	-12.0	11.1	16.7	-2.4	5.9	6.7	-1.5	17.0	0.4
Nominal Imports of G & S (% change, US$ basis)	16.0	10.0	-15.4	-31.6	9.9	23.8	1.7	1.3	9.9	-4.0	21.5	0.6
Openness of the Economy[1]	79.4	75.9	84.7	90.4	97.1	105.2	108.0	102.9	100.3	99.9	104.2	103.2
Government Effectiveness[2]	1.9	1.8	1.8	1.7	1.6	1.6	1.5	1.5	1.5	--	--	--
Government Finance												
Gen. Gov. Revenue/GDP	47.0	45.9	42.3	38.7	39.6	40.1	41.7	42.1	45.2	42.1	59.0	42.0
Gen. Gov. Expenditures/GDP	41.1	41.0	55.3	48.4	49.3	45.7	45.4	43.9	45.3	42.5	41.9	41.1
Gen. Gov. Financial Balance/GDP	5.9	4.9	-13.0	-9.7	-9.8	-5.6	-3.7	-1.8	-0.1	-0.5	17.1	0.9
Gen. Gov. Primary Balance/GDP	8.0	7.3	-10.0	-3.7	-5.0	-1.4	1.0	2.7	4.6	3.9	20.6	3.6
Gen. Gov. Debt (US$ Bil.)	4.9	6.0	9.5	11.7	14.1	16.0	13.8	14.9	13.4	11.7	10.1	9.4
Gen. Gov. Debt/GDP	29.3	27.3	73.9	91.8	100.1	115.1	100.2	91.2	84.6	68.2	55.0	49.4
Gen. Gov. Debt/Gen. Gov. Revenue	62.3	59.5	174.8	237.0	252.9	287.1	240.5	216.8	187.1	162.2	93.3	117.6
Gen. Gov. Int. Pymt/Gen. Gov. Revenue	4.5	5.3	7.2	15.5	12.0	10.3	11.3	10.9	10.4	10.5	6.0	6.5
Gen. Gov. FC & FC-indexed Debt/GG Debt	55.8	46.8	40.9	37.6	35.4	41.9	33.2	30.4	27.3	20.3	22.0	22.1

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016F	2017F
External Payments and Debt												
Nominal Exchange Rate (local currency per US$, Dec)	71.7	61.9	120.6	124.9	115.1	122.7	129.0	115.6	126.9	129.6	130.0	135.0
Real Eff. Exchange Rate (% change)	-7.0	5.5	-21.4	-19.2	5.1	1.4	-0.3	4.6	6.6	2.2	--	--
Current Account Balance (US$ Bil.)[3]	-4.0	-3.0	-2.9	0.2	-0.1	-0.1	0.1	1.2	0.9	0.9	0.8	0.5
Current Account Balance/GDP[3]	-23.3	-14.0	-16.7	1.3	-0.9	-0.5	0.8	7.5	5.3	5.6	4.0	2.3
External Debt (US$ Bil.)	73.1	120.6	32.6	29.3	36.8	37.0	32.9	39.0	35.7	30.2	27.8	26.4
Public External Debt/Total External Debt	4.6	3.3	16.2	21.6	17.8	22.0	18.2	15.1	13.8	13.9	13.7	13.6
Short-term External Debt/Total External Debt	16.7	34.1	16.0	10.5	8.0	5.5	5.6	5.1	4.7	5.3	5.8	5.8
External Debt/GDP	429.2	566.5	184.6	227.0	278.0	252.3	231.2	251.9	208.0	180.1	145.1	135.9
External Debt/CA Receipts[4][5]	914.4	1024.2	364.7	421.9	504.9	409.6	364.9	408.0	356.6	308.6	236.9	228.9
Interest Paid on External Debt (US$ Bil.)	1.9	3.1	3.3	0.3	0.5	0.5	0.3	0.6	0.3	0.3	0.2	0.1
Amortization Paid on External Debt (US$ Bil.)	5.1	18.1	10.8	0.9	0.9	5.2	1.5	1.3	3.1	1.0	1.1	0.6
Net Foreign Direct Investment/GDP	-9.9	-15.8	29.1	-17.1	19.7	7.4	29.8	-0.3	4.3	3.7	3.5	3.5
Net International Investment Position/GDP[3]	-100.2	-110.2	-57.2	-70.8	-69.8	-51.0	-27.0	-10.6	-4.7	-5.8	--	--
Official Forex Reserves (US$ Bil.)	2.3	2.5	3.5	3.6	5.6	7.7	4.0	4.1	4.1	4.8	4.6	4.8
Net Foreign Assets of Domestic Banks (US$ Bil.)	9.1	-24.3	0.0	0.6	1.4	2.3	2.7	3.5	2.0	0.6	--	--
Monetary, External Vulnerability and Liquidity Indicators												
M2 (% change Dec/Dec)	19.9	54.5	31.9	0.5	-10.3	7.5	-4.7	4.5	7.1	5.6	--	--
Monetary Policy Rate (% per annum, Dec 31)	14.3	13.8	18.0	9.1	3.9	4.1	5.4	5.4	4.5	5.8	--	--
Domestic Credit (% change Dec/Dec)	43.1	15.4	11.5	-0.5	-10.3	-23.1	-11.6	-4.6	-12.8	2.4	--	--
Domestic Credit/GDP	297.6	301.2	295.2	285.9	252.2	184.6	156.1	140.0	115.1	106.8	--	--
M2/Official Forex Reserves (X)	4.8	7.6	3.8	3.5	2.2	1.6	2.8	3.2	3.2	2.8	--	--
Total External Debt/Official Forex Reserves	3217.8	4732.9	934.0	804.1	663.0	480.2	813.0	945.7	879.0	630.5	602.6	548.5
Debt Service Ratio[6]	87.2	179.7	158.3	17.2	18.6	62.1	20.5	20.5	34.0	14.0	11.0	6.7
External Vulnerability Indicator[7]	1242.7	1333.2	2039.5	174.2	109.1	145.5	46.3	78.7	123.5	66.8	56.8	48.2
Liquidity Ratio[8]	74.9	162.4	233.9	309.7	151.1	147.9	54.1	28.2	19.7	--	--	--
Total Liabilities due BIS Banks/Total Assets Held in BIS Banks	205.9	305.2	401.0	525.0	231.5	246.7	127.2	87.6	84.8	--	--	--
"Dollarization" Ratio[9]	--	--	--	--	--	--	--	--	--	--	--	--
"Dollarization" Vulnerability Indicator[10]	--	--	--	--	--	--	--	--	--	--	--	--

[1] Sum of Exports and Imports of Goods and Services/GDP
[2] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions
[3] Excludes DMBs undergoing winding up in 2008-2015.
[4] Current Account Receipts
[5] The services component of current account receipts is not adjusted to account for FISIM services related to the DMBs undergoing winding up. The primary income receipts are adjusted to account for FISIM services related to the DMBs undergoing winding up.
[6] (Interest + Current-Year Repayment of Principal)/Current Account Receipts
[7] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/ Official Foreign Exchange Reserves
[8] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks
[9] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System
[10] Total Foreign Currency Deposits in the Domestic Banking System/(Official Foreign Exchange Reserves + Foreign Assets of Domestic Banks)

Source: Moody's Investors Service

Moody's Related Research

- **Rating Action:** Moody's upgrades Iceland's government ratings to A3; outlook stable, 1 September 2016
- **Issuer In-Depth**: Government of Iceland: Key Drivers for Two-Notch Upgrade to A3 Stable, Concluding Ratings Review, 12 September 2016
- **Credit Opinion**: Government of Iceland – A3 Stable: Update Following Recent Upgrade, Concluding Rating Review, 1 September 2016
- **Issuer Comment:** Iceland Schedules Auction to Buy Offshore Krónur, a Credit Positive, 30 May 2016
- **Country Statistics**: Iceland, Government of, 1 June 2016
- **Outlook**: Global Macro Outlook 2016-17: Emerging market outlook stabilizes, while political risks take center stage, 17 August 2016
- **Rating Methodology**: Sovereign Bond Ratings, 18 December 2015

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related Websites and Information Sources

- Statistics Iceland
- Central Bank of Iceland
- Ministry of Finance and Economic Affairs

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Endnotes

1 Statistics Iceland refers to the "at-risk-of-poverty ratio", which is defined as those with less than 60% of the population's median income as a share of total population. This is a slightly broader concept than the OECD poverty rate, which is half the median income.

2 The largest portion of households' financial assets (76%) were held in insurance technical reserves, which were mostly pension fund reserves. See Statistics Iceland.

3 The source used for tourist arrivals statistics is the Icelandic Tourist Board

4 Ministry of Finance, December 2015.

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