FitchRatings

Iceland

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1+
Local Currency	
Long-Term IDR	A
Short-Term IDR	F1+
Country Ceiling	A+

Outlooks

Long-Term Foreign-Currency IDR	Negative
Long-Term Local-Currency IDR	Negative

Rating Derivation

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

[a] The SRM output was 'A-'. However, the rating committee decided not to adopt this as the starting point for its analysis because the SRM output has migrated from 'No.' to 'No.', but in our view this is a temporary improvement/ deterioration/other reason
Source: Fitch Ratings

Applicable Criteria

Sovereign Rating Criteria (April 2021)
Country Ceiling Criteria (July 2020)

Related Research

Global Economic Outlook (September 2021)
Western Europe Sovereign Credit Overview (August 2021)

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Key Rating Drivers

Uncertainty Around Public Finances: The Negative Outlooks on Iceland's Long-Term Issuer Default Ratings (IDRs) reflect the uncertainty around the path of the public finances following the Covid-19 shock, which has left the public debt ratio substantially higher than pre-pandemic, and at risk of rising further over the medium term. Following the September elections, Fitch Ratings expects more clarity about the pace at which fiscal support will be unwound in the short term and about the direction of fiscal policy.

Given Iceland's sizeable concentration in tourism and commodity exports, the corporate sector is vulnerable to a weaker recovery in tourism flows than Fitch assumes and potential spill-over effects on banks' asset quality.

Worsening Fiscal Projections: Statistics Iceland has revised up the 2020 general government deficit to 8.6% from 7.3% of GDP. We expect the general government deficit to widen further to 10% of GDP in 2021 (8.1% of GDP in the previous review). Our forecast revision reflects the higher 2020 deficit but also additional stimulus measures introduced this year. Fitch forecasts general government debt to peak at 85% of GDP in 2023 before slowly declining.

Swift Growth Recovery: The economy grew strongly in 2Q21, helped by the reopening of the border to foreign tourists in March and underpinned by sizeable policy support. We have revised upwards our 2021 real GDP growth forecast to 4.0% from 2.6% at the previous review, reflecting a swifter rebound in tourism flows and a stronger improvement in the labour market.

Monetary Policy Tightening: The Central Bank of Iceland (CBI) has started to tighten monetary policy. It raised the policy rate by 50bp to 1.25% (two 25bp rises in May and August) given higher-than-expected inflation. We expect another 25bp increase in 2021 as inflation expectations have also risen and home prices remain buoyant.

Rising House Prices: Home prices have rose by 13% yoy in August 2021 compared with 7.8% in August 2020. Due to the sharp increase, Fitch's Macro Prudential Risk Monitor indicates that real home prices are above their long-term trend. In June, the CBI lowered the maximum loan-to-value (LTV) ratio for mortgages to 80% from 85% in response to rising real estate prices and rising household debt.

Highly Capitalised Banks: Banks are highly capitalised with an aggregated capital adequacy ratio of 24.9% in 4Q20 improved from its 2019 level, and the financial sector poses a limited contingent liability for the government, in Fitch's view. Banks are in a good position to withstand a deterioration in the loan portfolio. Non-performing loans (NPLs) were low at 3.1% in 2Q21, but we expect them to increase.

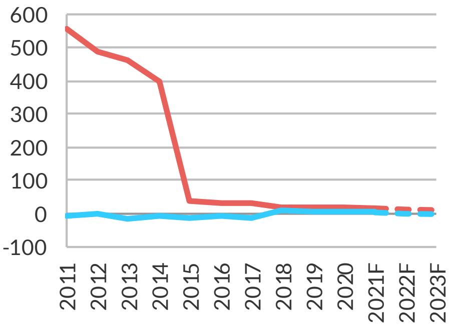
Rating Sensitivities

Debt Rise, Prolonged Weakness: Evidence that the government's economic and fiscal strategy fails to arrest the increase in government debt/GDP over time, renewed economic weakness or an adverse shock, for example, due to a slower-than-expected recovery in tourism, a sustained correction in the real estate market or material negative impact on the banks could lead to negative rating action.

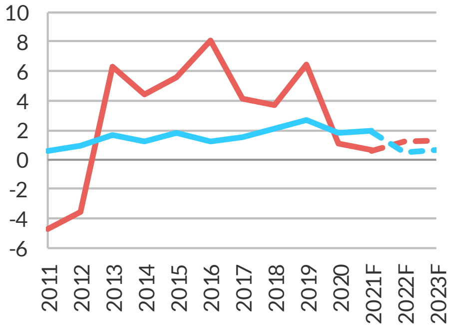
Debt Decline, Improved Growth: Greater confidence that government debt/GDP will decline over time once the Covid-19 crisis has subsided or a sustained economic recovery, for example, supported by evidence that export-oriented sectors, particularly tourism, have been resilient to the economic shock, could lead to positive rating action.

Peer Comparison

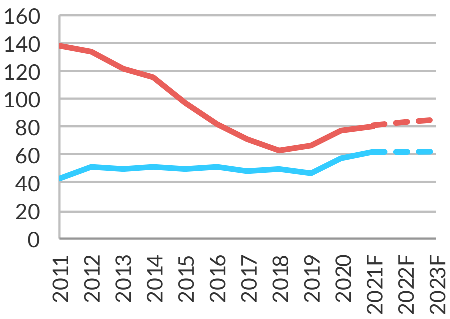
Net External Debt
% of GDP



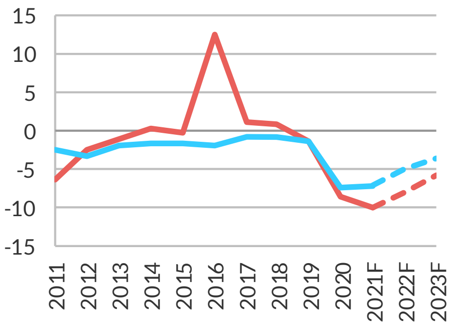
Current Account Balance
% of GDP



General Government Debt
% of GDP

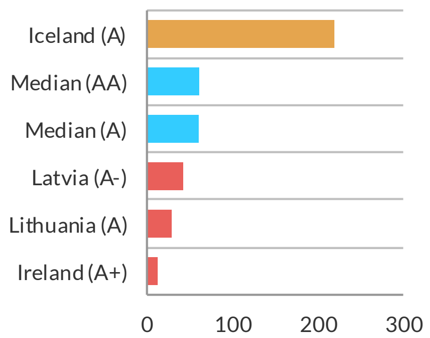


General Government Balance
% of GDP



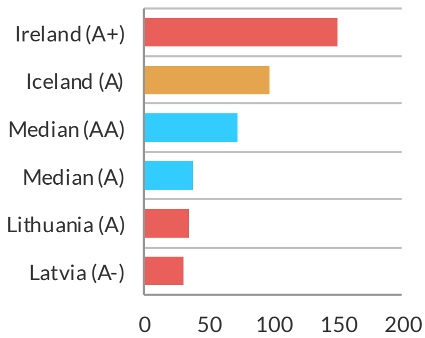
Iceland   Median (A)

International Liquidity Ratio, 2021F
%



GDP Per Capita Income, 2021F

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
Source: Fitch Ratings

Financial Data

Iceland

(USDbn)	2021
GDP	25.4
GDP per head (USD 000)	69.8
Population (m)	0.4
International reserves	6.6
Net external debt (% GDP)	16.5
Central government total debt (% GDP)	75.0
CG foreign-currency debt	2.9
CG domestically issued debt (ISKbn)	1,883.0

Source: Fitch Ratings

Rating Factors

Strengths

- Iceland ranks much higher on the World Bank Worldwide Governance Indicators and Human Development Index Indicators relative to the medians.
- GDP and income per capita are significantly higher than the 'A' and 'AA' medians.
- Pension funds' assets accounted for 194% of GDP at end-2020, providing support to the sovereign fiscal financing flexibility.
- A favourable demographic composition (the share of people of working age was 65% in 2020) supports growth potential.
- Foreign-exchange reserves were 9.7 months of current external payments in 2020, well above the 'A' peer current median (of four months).

Weaknesses

- Iceland is highly reliant on tourism. According to the World Travel & Tourism Council, the sector accounted for 10.3% of GDP and 21.9% of employment in 2019.
- Volatility of real GDP growth and inflation are higher than the 'A' peer median.
- We expect gross general government debt at 81% of GDP at end-2021 well above the 'AA' current median.
- Iceland's public debt interest payments and the share of public debt maturing in a year are higher than the 'A' peer median.
- Gross and net external debt metrics are higher than the 'A' medians. But the net international investment position, which includes equity and investment fund shares, was 38% of GDP in 2020, well above the current 'A' median of 14%.

Local-Currency Rating

Iceland's credit profile does not support uplift 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 is present: strong public finance fundamentals relative to external finance fundamentals; and previous preferential treatment of local-currency creditors relative to foreign-currency creditors.

Country Ceiling

Fitch lifted Iceland's Country Ceiling to 'A+' at the May 2019 rating review, one notch above Iceland's Long-Term Foreign-Currency IDR. This reflects the record of liberalisation of capital controls since 2016. In March 2019, the remaining offshore Icelandic krona assets that were restricted from conversion into foreign-currency assets at marker rates were released.

Peer Group

Rating	Country
A+	China
	Ireland
	Israel
	Malta
A	**Iceland**
	Japan
	Lithuania
	Ras Al Khaimah
	Saudi Arabia
	Slovakia
	Slovenia
A-	Chile
	Latvia
	Poland
	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

Source: Fitch Ratings

Strengths and Weaknesses: Comparative Analysis

2021	Iceland A	A median[a]	AA median[a]	Ireland A+	Lithuania A	Latvia A-
Structural features						
GDP per capita (USD, mkt exchange rates)	69,836	27,883	48,925	103,317	22,526	19,828
GNI per capita (PPP, USD, latest)	59,590	41,750	53,590	69,190	37,420	31,590
GDP (USDbn)	25.4			515.9	62.8	37.5
Human development index (percentile, latest)	97.8	81.9	88.7	98.9	82.4	80.8
Governance indicator (percentile, latest)[b]	94.0	75.9	84.3	90.4	80.5	75.4
Broad money (% GDP)	48.1	89.4	98.3	92.5	77.2	59.5
Default record (year cured)[c]	-	-	-	-	-	-
Ease of doing business (percentile, latest)	86.8	83.1	88.9	87.9	94.8	90.5
Trade openness (avg. of CXR + CXP % GDP)	34.7	60.6	46.9	127.3	72.0	65.6
Gross domestic savings (% GDP)	21.4	27.3	26.8	65.0	21.2	22.4
Gross domestic investment (% GDP)	21.7	24.0	23.6	33.7	9.8	23.2
Private credit (% GDP)	95.1	73.8	101.8	28.2	35.8	31.6
Bank systemic risk indicators[d]	-/-			bbb/1	-/-	-/-
Bank system capital ratio (% assets)	24.9	15.6	15.9	25.5	21.8	23.0
Foreign bank ownership (% assets)	-	45.7	26.4	19.5	91.0	-
Public bank ownership (% assets)	-	16.1	12.7	19.8	0.0	-
Macroeconomic performance and policies						
Real GDP (5yr average % change)	1.9	4.1	2.8	8.7	3.3	1.9
Volatility of GDP (10yr rolling SD)	3.6	2.6	2.1	7.5	1.7	2.4
Consumer prices (5yr average)	1.1	2.3	2.2	0.6	2.5	2.2
Volatility of CPI (10yr rolling SD)	2.2	1.8	1.3	0.8	1.4	1.3
Unemployment rate (%)	6.5	6.4	5.0	6.7	8.5	7.8
Type of exchange-rate regime	Floating			Free floating	Free floating	Free floating
Dollarisation ratio (% of bank deposits)	10.8	10.2	11.7	25.0	6.0	-
REER volatility (10yr rolling SD)	7.0	5.0	4.4	4.4	1.9	1.0

Source: Fitch Ratings

Strengths and Weaknesses: Comparative Analysis (Cont.)

2021	Iceland A	A median[a]	AA median[a]	Ireland A+	Lithuania A	Latvia A-
Public finances[e]						
Budget balance (% GDP)	-10.0	-2.2	-0.4	-3.3	-6.3	-9.0
Primary balance (% GDP)	-7.5	-0.4	1.3	-2.5	-5.7	-8.3
Gross debt (% revenue)	198.8	137.9	134.8	255.8	133.6	126.2
Gross debt (% GDP)	79.5	42.2	39.7	53.7	49.0	49.3
Net debt (% GDP)	65.9	37.9	29.2	48.8	42.1	42.7
Foreign-currency debt (% total debt)	11.2	10.8	0.8	0.0	4.7	9.0
Interest payments (% revenue)	9.0	4.6	3.8	3.8	1.6	1.8
Revenues and grants (% GDP)	40.0	35.3	40.0	21.0	36.7	39.1
Volatility of revenue/GDP ratio	11.6	5.5	4.4	21.9	3.5	2.1
Central govt. debt maturities (% GDP)	14.4	4.8	6.8	0.9	4.4	5.7
External finances						
Current account balance + net FDI (% GDP)	-0.4	2.4	0.9	17.2	5.6	2.2
Current account balance (% GDP)	0.6	0.9	1.7	11.4	4.5	-0.5
Net external debt (% GDP)	16.5	-8.1	-9.4	-191.4	-11.6	10.9
Gross external debt (% CXR)	211.4	104.4	248.2	489.9	103.6	181.7
Gross sovereign external debt (% GXD)	16.0	17.5	16.1	6.0	65.9	58.0
Sovereign net foreign assets (% GDP)	14.2	12.0	4.9	-24.9	-41.1	-3.5
Ext. interest service ratio (% CXR)	4.3	2.4	4.9	5.1	1.3	0.8
Ext. debt service ratio (% CXR)	14.4	13.0	27.0	54.5	5.2	23.9
Foreign-exchange reserves (months of CXP)	9.1	4.4	2.9	0.2	1.4	2.5
Liquidity ratio (latest)[f]	219.5	102.6	59.9	12.3	28.8	42.3
Share of currency in global reserves (%)	0	0	0	21	21	21
Commodity export dependence (% CXR, latest)	49.6	11.6	16.0	4.8	24.1	25.6
Sovereign net foreign-currency debt (% GDP)	-17.1	-11.7	-7.8	-1.7	-6.1	-9.1

[a] Medians based on actual data since 2000 (excl. forecasts) for all sovereign-year observations where the sovereign was in the respective rating category at year-end. Three-year centred averages are used for the more dynamic variables (e.g. current account and fiscal balance)
[b] Composite of six World Bank Governance Indicators used in the Sovereign Rating Model: Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence
[c] No modern history of default
[d] Bank systemic indicator, which equates to a weighted average Viability Rating; and macro prudential indicator, with 1 'low' systemic risk through to 3 'high'
[e] General government unless stated
[f] 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
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

Key Credit Developments

Ruling Coalition Increases Majority

In Iceland's parliamentary elections on 25 September, the three governing parties – Independence Party, Progressive and Left-Green – won 37 out of 63 seats. Fitch expects the three parties to enter coalition talks. Although we think an agreement between the parties is likely, the balance of power within the government may change. The Independence Party won 16 seats and maintained broadly the same level of support as it did in the 2017 elections. The Progressive Party gained 13, an increase of five, while the Left-Green Movement – the party of the Prime Minister Katrin Jakobsdottir – won eight, a decline from 2017.

Tourism Drives Recovery

The economy grew by a strong 4.2% qoq in 2Q21, after the reopening of the border to foreign tourists in March, following the 3.3% qoq contraction in 1Q21. We have raised our 2021 real GDP forecast to 4% from 2.6% at the previous review, reflecting a swifter rebound in tourism flow, a stronger improvement in the labour market and the sizeable policy support. The unemployment rate declined sharply to 5.5% in August 2021 from a peak of 11.6% in January, helped by the wage subsidy scheme. Private consumption is supported by a rapidly improving labour market, strong real wage growth and cuts to personal income taxes for lower-income households. Investment is growing strongly (27% qoq in 2Q21), underpinned by strong business investment and partly on the back of the government's Investment and Construction initiative.

Foreign tourists' arrivals have swiftly recovered but remain far short of pre-pandemic levels. A pick-up in arrivals from the US (18% of Iceland's tourists in 2019) was the main driver; in July 2021 foreign tourist arrivals rose to about half of July 2019 levels, a much stronger performance relative to July 2020 (19% of July 2019 levels). The reintroduction of some restrictions following a sharp rise in Covid-19 cases in August is likely to have hampered the recovery in tourist arrivals. Fitch expects a stronger rebound in tourism flows in 2022 with tourists' arrivals 20% below their end-2019 level and projects the rate of real GDP growth to accelerate to 4.6% in 2022.

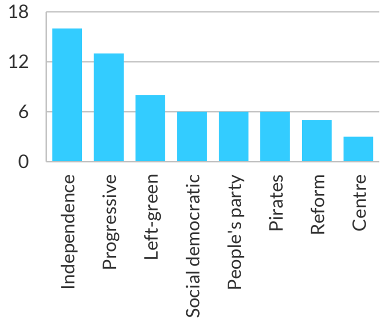
The other two key sectors of the economy, aluminium and fishing, have been resilient throughout the pandemic. The aluminium sector should continue to benefit from the rebound in commodity prices. In mid-February, Landsvirkjun and Rio Tinto Iceland (the operator of Straumsvik the third-largest aluminium smelter) entered into a new energy agreement, mitigating the uncertainty that had persisted about the smelter. Iceland's aquaculture sector is small but rising at a fast pace with significant investment to increase productive capacity. The sector's growth and the rise in aquaculture exports could help to offset the volatility in fishing exports, which has been affected by frequent changes to fishing quotas.

Inflationary Pressures Prompt CBI to Raise Rates

In recent months, consumer price inflation has risen markedly above the 2.5% target, mainly as a result of strong wage growth, rising commodity prices, the krona deprecation over 2020 and the sharp rise in home prices. Inflation peaked at 4.6% in April; the rate has since declined to 4.4%. We expect a further 25bp rise before the end of the year as inflation expectations have also increased and home prices remain buoyant. Long-term inflation expectations are close to target, which suggest confidence that the CBI will bring back inflation to target over the coming months. The CBI expects inflation to return to target in 2H22.

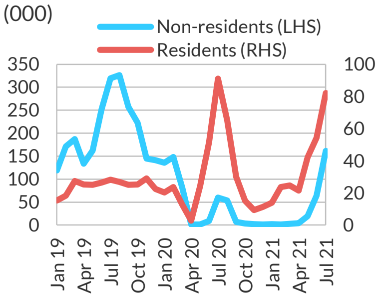
Mortgage lending growth has gained momentum over 2020-2021. Household debt rose by 9% in 2020 on the back of falling interest rates. A high proportion of households moved their mortgages from pension funds and the Housing Finance Fund to commercial banks to refinance at lower rates; banks' loans to households were up 31% yoy in July 2021. As a result, home prices have been dynamic, rising by 13% yoy in August 2021 compared with 7.8% in August 2020. Fitch's Macro Prudential Risk Monitor indicates that real house prices are above their long-term trend. In June, the CBI lowered the maximum LTV ratio for mortgages to 80% from 85% in response to rising real estate prices and rising household debt. In addition, on 29 September the CBI announced the countercyclical capital buffer will be increased to 2% from 0%; the change will take effect from September 2022.

2021 Election Results



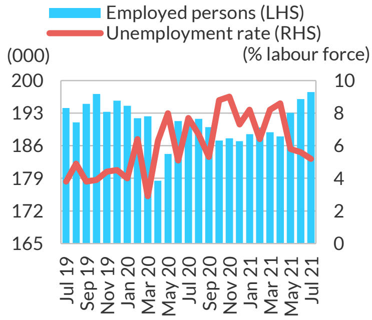
Source: Fitch Ratings, RUV Iceland

Arrivals in Hotels



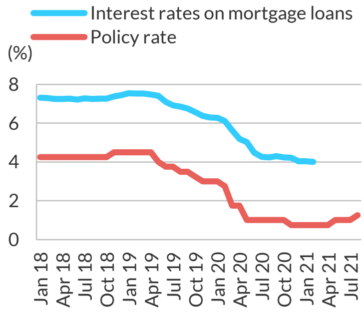
Source: Fitch Ratings, Statistics Iceland, Haver Analytics

Labour Market



Source: Fitch Ratings, Statice

Monetary Policy Transmission



Source: Fitch Ratings, CBI

Banking Sector and Corporate Vulnerabilities

Banks' exposures are highly concentrated. Loans to companies operating in the tourism sector accounted for 10% of the commercial banks' total lending and just over 20% of their corporate lending portfolios. The depreciation of the krona in 2020 increased the outstanding balance of foreign-currency-denominated loans, which account for nearly a third of loans to tourism companies. Their commercial real estate-backed mortgage lending portfolio accounted for 26% of total loans to customers. The expiration of pandemic-related loan moratoria has led to a substantial increase in loans on forbearance, mostly in the sectors related to tourism. Corporate insolvencies were limited in 2020 but rose by 18% year on year between January and July.

Government measures have been effective in protecting firms. Corporate arrears have increases marginally; NPLs for the corporate sector was 4.4% in February 2021, only marginally higher than end-2019 (3.8%). Payment arrears are higher in the tourism sector, where the NPL ratio was about 12%. The share of tourism sector loans in moratoria peaked at 18% in July 2020. As the moratoria expired, a large share of loans to tourism companies has moved from Stage 1 (performing) to Stage 2 (underperforming), according to the IFRS 9 classification. Stage 2 loans at systemically important banks rose to 14% at end-2020 from 7% in 2019, but have come down to 12% in 2Q21. As government supports unwinds, we would expect part of these frozen loans to become non-performing. The extent of the deterioration is hard to assess and will depend on the pace of economic recovery.

The banking sector is in a good position to withstand a deterioration in the loan portfolio. Banks are highly capitalised with an aggregated capital adequacy ratio of 24.9% in 4Q20 higher than its 2019 level. NPLs were low at 3.1% in 2Q21. Moreover, the measures taken by the CBI at the start of the pandemic crisis ensured provision of ample liquidity, by reducing the policy interest rate by 200bp, lowering reserve requirements by 1pp and the countercyclical capital buffer to zero from 2%. On the whole, our view is that the financial sector poses a limited contingent liability for the government.

Larger Public Debt for Longer

Our fiscal projections have worsened relative to the previous rating review. Statistics Iceland has revised upwards the 2020 general government deficit to 8.6% from 7.3% of GDP. We expect the general government deficit to widen further to 10% of GDP in 2021 (8.1 % of GDP in the previous review). Our forecast revision reflects the worse starting point (a higher 2020 deficit) but also additional stimulus measures introduced this year.

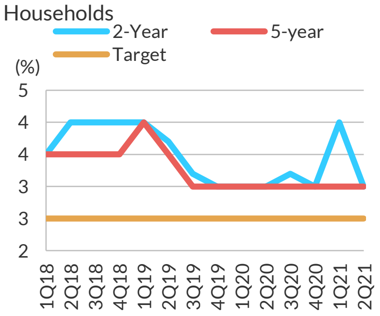
Our projection remains below the government's estimate of 11.4% of GDP. Our projections assume the direct cost of fiscal policy measures at 3.5% of GDP in 2021. This includes an increase in public investment (1% of GDP), previously planned cuts to personal income tax, a cut in the bank tax and the introduction of a wage subsidy to encourage companies to re-hire employees. We expect the deficit to narrow to 8% of GDP in 2022 as the economic recovery strengthens and the majority of pandemic related fiscal support unwinds.

Fitch forecasts general government debt to increase to 79%[1] of GDP this year from 77% in 2020. Debt levels have been revised markedly higher (in December 2020) due to the inclusion of several state-owned entities into the general government scope[2]. We expect debt to peak at 84% in 2023 and to decline slowly thereafter. Although there is some uncertainty around fiscal policy settings post-elections, we think that broad political support for rebuilding fiscal buffers and strong record of public debt reduction of 70pp of GDP in 2011-2018 supports fiscal-policy credibility over the long run.

The sovereign has high financing flexibility due to the extremely large pool of private pension funds' assets (194% of GDP), 65% of which was invested domestically at end-2020. The government also has strong access to the international bond market, a large cash deposit buffer and is supported by robust liquidity in the banking system. Government assets are large at 84% of GDP. In June 2021, the Treasury sold 35% of its stake in Islandsbanki, raising ISK55 billion (1.7% of 2021 projected GDP), which is earmarked for debt reduction. Further sales of government equity stakes over the coming years could accelerate debt reduction.

Inflation Expectations

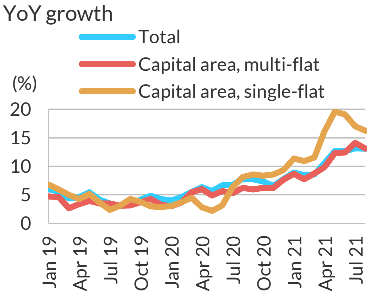
Households



Source: Fitch Ratings, CBI

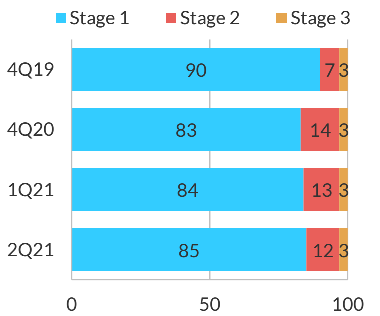
House Prices

YoY growth



Source: Fitch Ratings, Statistics Iceland, Haver Analytics

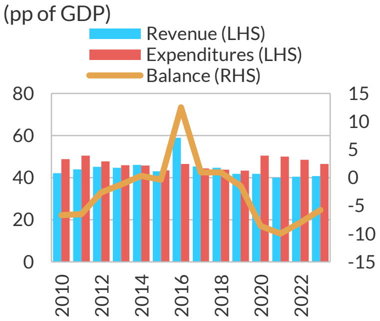
IFRS 9 Stage Allocations



Source: Fitch Ratings, Central Bank of Iceland

Fiscal Path

(pp of GDP)



Source: Fitch Ratings

[1] We have included a debt-reducing stock flow adjustment for 2021 stemming from the sale of the government's stake in Islandsbanki (1.7% of GDP)
[2] See Iceland Full Rating Report, 20 April 2021

Public Debt Dynamics

According to Fitch's baseline projections, GGGD should peak at 83.7% of GDP in 2023. In a scenario of looser fiscal policy, the debt ratio would rise to 99% of GDP by 2025. A high-interest-rate scenario would see the debt continuing to rise over time and reach 88% of GDP by 2025.

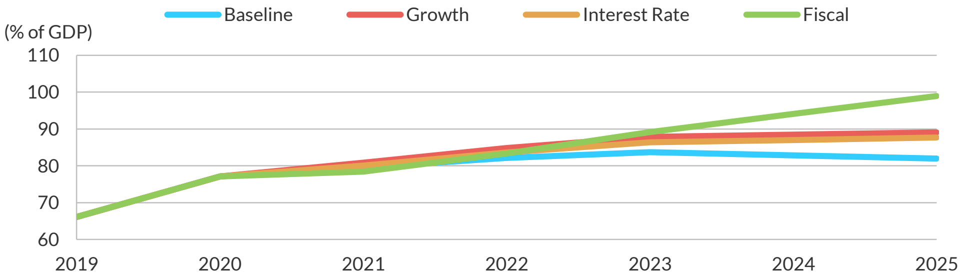
Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

	2020	2021	2022	2023	2024	2025
Gross general government debt (% of GDP)	77.1	79.5	82.2	83.7	82.8	82.0
Primary balance (% of GDP)	-6.4	-7.5	-4.2	-2.1	-0.5	-0.5
Real GDP growth (%)	-6.5	4.0	4.6	2.7	2.5	2.5
Average nominal effective interest rate (%)	3.3	3.0	2.9	2.8	2.8	2.9
ISK/USD (annual average)	135.4	125.1	122.0	123.00	125.00	125.00
GDP deflator (%)	3.2	4.1	2.5	2.6	2.0	2.0

Source: Fitch Ratings

Sensitivity Analysis

Gross general government debt



Source: Fitch Ratings Debt Dynamics Model

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 1.8% lower (half-standard deviation lower) from 2021
Interest rate	Marginal interest rate 250bp higher from 2021
Fiscal	Stable primary balance deficit from 2021 onwards

Source: Fitch Ratings Debt Dynamics Model

Forecast Summary

	2017	2018	2019	2020	2021F	2022F	2023F
Macroeconomic indicators and policy							
Real GDP growth (%)	4.5	4.9	2.4	-6.5	4.0	4.6	2.7
Unemployment (%)	3.3	3.1	3.9	6.5	6.5	5.5	5.0
Consumer prices (annual average % change)	-1.6	0.7	2.0	1.2	3.4	2.0	2.0
Short-term interest rate (bank policy annual avg.) (%)	4.3	4.5	3.0	0.8	1.5	2.5	3.5
General government balance (% of GDP)	1.0	0.9	-1.5	-8.6	-10.0	-8.0	-5.8
General government debt (% of GDP)	71.6	63.1	66.1	77.1	79.5	82.1	83.7
ISK per USD (annual average)	106.82	108.30	122.61	135.42	125.11	122.00	123.00
Real effective exchange rate (2000 = 100)	104.7	102.0	95.1	87.9	89.7	93.3	97.9
Real private sector credit growth (%)	10.3	11.9	1.9	8.1	-0.4	0.0	1.0
External finance							
Current account balance (% of GDP)	4.2	3.7	6.4	1.1	0.6	1.2	1.3
Current account balance plus net FDI (% of GDP)	4.9	2.0	3.3	-1.9	-0.4	0.4	0.5
Net external debt (% of GDP)	31.9	19.8	19.6	20.4	16.5	13.3	11.0
Net external debt (% of CXR)	63.9	39.3	40.7	54.2	47.0	37.9	30.2
Official international reserves including gold (USDbn)	6.6	6.3	6.8	6.4	6.7	6.5	6.7
Official international reserves (months of CXP cover)	7.0	6.2	7.8	9.7	9.1	8.2	7.9
External interest service (% of CXR)	4.5	3.7	3.6	4.8	4.3	3.9	3.5
Gross external financing requirement (% int. reserves)	-0.5	17.3	1.3	15.6	11.8	22.2	19.1
Real GDP growth (%)							
US	2.3	3.0	2.2	-3.4	6.2	3.9	1.9
China	6.9	6.8	6.0	2.3	8.1	5.2	5.3
Eurozone	2.4	1.9	1.3	-6.3	5.2	4.5	2.2
World	3.4	3.2	2.6	-3.3	6.0	4.4	3.0
Oil (USD/barrel)	54.8	71.5	64.1	43.3	63.0	55.0	53.0

Source: Fitch Ratings

Fiscal Accounts Summary

(% of GDP)	2018	2019	2020	2021F	2022F	2023F
General government						
Revenue	**44.8**	**41.8**	**41.9**	**40.0**	**40.5**	**40.7**
Expenditure	**43.8**	**43.3**	**50.5**	**50.0**	**48.5**	**46.5**
O/w interest payments	4.9	4.3	4.0	3.6	4.9	4.7
Primary balance	3.1	0.5	-6.4	-7.5	-4.2	-2.1
Overall balance	**0.9**	**-1.5**	**-8.6**	**-10.0**	**-8.0**	**-5.8**
General government debt[a]	**63.1**	**66.1**	**77.1**	**79.5**	**82.1**	**83.7**
% of general government revenue	141.1	158.2	184.1	198.8	202.7	205.5
Central government deposits	7.9	8.3	16.6	13.6	12.7	12.0
Net general government debt	55.2	57.8	60.5	65.9	69.4	71.6
Central government						
Revenue	**33.4**	**30.6**	**29.5**	**28.2**	**28.5**	**28.7**
O/w grants	0.5	0.5	0.2	0.2	0.2	0.2
Expenditure and net lending	**32.1**	**31.7**	**37.5**	**37.1**	**36.0**	**34.5**
O/w current expenditure and transfers	30.5	30.1	35.7	35.4	34.3	32.9
- Interest	4.5	3.9	3.6	3.7	3.9	3.9
O/w capital expenditure	1.5	1.6	1.8	1.8	1.7	1.6
Current balance	2.8	0.5	-6.2	-7.2	-5.8	-4.2
Primary balance	5.8	2.8	-4.4	-5.2	-3.6	-1.9
Overall balance	**1.3**	**-1.1**	**-8.0**	**-9.0**	**-7.5**	**-5.9**
Central government debt	57.6	60.3	70.0	72.2	74.6	76.0
% of central government revenues	172.7	196.9	237.4	256.4	261.5	265.2
Central government debt (ISKbn)	**1,639.3**	**1,836.6**	**2,059.2**	**2,297.9**	**2,546.0**	**2,735.7**
By residency of holder						
Domestic	1,529.2	1,747.1	1,739.2	1,940.8	2,150.4	2,310.6
Foreign	110.1	89.4	320.0	357.1	395.7	425.1
By currency denomination						
Local currency	1,514.7	1,649.9	1,813.3	1,938.5	2,265.7	2,491.8
Foreign currency	124.6	186.6	245.9	359.5	280.3	243.9
In USD equivalent (eop exchange rate)	1.1	1.5	1.9	2.9	2.3	2.0
Average maturity (years)	6.3	5.5	4.8	4.7	-	-
Memo						
Nominal GDP (ISKbn)	2,844.7	3,047.7	2,941.1	3,181.7	3,413.8	3,600.1

Source: Fitch Ratings estimates and forecasts and Ministry of Finance

External Debt and Assets

(USDbn)	2016	2017	2018	2019	2020	2021F
Gross external debt	**26.0**	**22.5**	**20.1**	**19.2**	**18.8**	**18.9**
% of GDP	125.2	91.0	76.5	77.2	86.4	74.2
% of CXR	233.8	182.8	152.1	160.2	230.0	212.0
By maturity						
Medium- and long-term	24.4	21.0	18.7	17.9	17.3	17.4
Short-term	1.7	1.6	1.4	1.3	1.4	1.5
% of total debt	6.4	6.9	7.1	6.9	7.7	7.7
By debtor						
Sovereign	**3.9**	**2.8**	**2.5**	**3.0**	**2.7**	**3.1**
Monetary authorities	0.4	0.4	0.4	0.5	0.4	0.4
General government	3.5	2.4	2.1	2.4	2.4	2.7
Banks	**4.2**	**5.8**	**5.9**	**5.5**	**5.5**	**5.8**
Other sectors	**17.9**	**14.0**	**11.7**	**10.7**	**10.5**	**10.0**
Gross external assets (non-equity)	**19.3**	**14.6**	**14.9**	**14.3**	**14.3**	**14.7**
International reserves, incl. gold	7.2	6.6	6.3	6.8	6.4	6.7
Deposit money banks' foreign assets	2.3	3.1	3.6	3.1	3.4	3.4
Other sector foreign assets	9.8	5.1	5.0	4.5	4.6	4.7
Net external debt	**6.8**	**7.9**	**5.2**	**4.9**	**4.4**	**4.2**
% of GDP	32.6	31.9	19.8	19.6	20.4	16.5
Net sovereign external debt	-3.4	-3.8	-3.8	-3.8	-3.7	-3.6
Net bank external debt	2.0	2.8	2.3	2.5	2.2	2.4
Net other external debt	8.1	8.9	6.7	6.1	5.9	5.4
Net international investment position	**0.4**	**0.5**	**2.3**	**5.4**	**8.3**	**-**
% of GDP	2.0	2.0	8.8	21.6	38.4	-
Sovereign net foreign assets	**3.4**	**3.8**	**3.8**	**3.8**	**3.7**	**3.6**
% of GDP	16.1	15.4	14.4	15.3	17.1	14.2
Debt service (principal & interest)	**1.4**	**1.6**	**2.6**	**2.1**	**1.7**	**1.3**
Debt service (% of CXR)	12.7	12.7	19.7	17.5	20.7	14.4
Interest (% of CXR)	5.5	4.5	3.7	3.6	4.8	4.3
Liquidity ratio (%)	54.8	192.0	164.8	188.6	207.1	219.5
Net sovereign FX debt (% of GDP)	-26.1	-22.0	-20.0	-21.1	-20.7	-17.1
Memo						
Nominal GDP	20.8	24.7	26.3	24.9	21.7	25.4
Inter-company loans	10.2	6.4	4.5	4.6	3.9	3.3

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

Balance of Payments

(USDbn)	2018	2019	2020	2021F	2022F	2023F
Current account balance	**1.0**	**1.6**	**0.2**	**0.1**	**0.3**	**0.4**
% of GDP	3.7	6.4	1.1	0.6	1.2	1.3
% of CXR	7.5	13.2	2.9	1.6	3.6	3.5
Trade balance	**-1.5**	**-0.9**	**-0.7**	**-0.8**	**-0.8**	**-0.8**
Exports, fob	5.7	5.3	4.6	5.0	5.4	5.9
Imports, fob	7.2	6.2	5.3	5.7	6.2	6.7
Services, net	**2.4**	**2.1**	**0.5**	**0.7**	**0.9**	**0.9**
Services, credit	6.5	5.7	2.8	3.0	3.5	3.8
Services, debit	4.2	3.6	2.2	2.4	2.6	2.9
Income, net	**0.3**	**0.5**	**0.5**	**0.4**	**0.4**	**0.4**
Income, credit	0.7	0.7	0.5	0.7	0.7	0.7
Income, debit	0.4	0.2	0.0	0.3	0.3	0.3
O/w: Interest payments	0.5	0.4	0.4	0.4	0.4	0.4
Current transfers, net	**-0.2**	**-0.2**	**-0.2**	**-0.1**	**-0.1**	**-0.1**
Capital and financial accounts						
Non-debt-creating inflows (net)	1.6	0.7	1.1	1.0	0.9	0.9
O/w equity FDI	1.0	-0.9	0.2	0.3	0.2	0.2
O/w portfolio equity	0.6	1.6	0.9	0.7	0.7	0.7
O/w other flows	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves	0.0	0.6	-0.2	0.3	-0.2	0.2
Gross external financing requirement	**1.1**	**0.1**	**1.1**	**0.8**	**1.5**	**1.2**
Stock of international reserves, incl. gold	**6.3**	**6.8**	**6.4**	**6.7**	**6.5**	**6.7**

Source: Fitch Ratings estimates and forecasts and IMF

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