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.

Key Rating Drivers

Negative Outlook: The Negative Outlook on Iceland's 'A' rating reflects the impact of the coronavirus pandemic on the Icelandic economy and the resulting deterioration in the public finances. The fiscal deficit has widened materially and government debt is set to increase sharply from pre-pandemic levels over the next few years. As a small and highly open economy with a sizeable concentration in tourism and commodity exports, Iceland is heavily exposed to the pandemic shock.

Fiscal Policy Easing: Fitch Ratings expects the general government deficit to widen to 8.1% of GDP in 2021 from 7.3% in 2020 and 1.5% in 2019, due to additional stimulus measures outlined in the 2021 budget, but we also assume that spending will not reach the maximum set out in the budget. We estimate the direct cost of fiscal-policy measures at 3.5% of GDP in 2021. We expect the deficit to narrow to 6.5% of GDP in 2022.

Higher Debt for Longer: Fitch forecasts gross general government debt to increase to 83.7% of GDP in 2021 and to 84.7% in 2022, from 79.9% in 2020. We expect public debt to peak at 85.3% of GDP in 2023 and to decline very slowly thereafter. Parliamentary elections in 2021 could lead to a fiscal strategy with a slower debt-reduction path, but Fitch believes that broad political support for rebuilding fiscal buffers and a strong record of public debt reduction of 70pp of GDP in 2011-2019 support fiscal policy credibility over the long run.

High Financing Flexibility: Iceland has high flexibility to finance large fiscal deficits arising from its response to the pandemic shock over the next few years. Icelandic private pension funds managed 194% of GDP in assets, with roughly 66% invested domestically at end-2020. The government also has strong access to the international bond market, a large cash deposit buffer (around 15% of GDP at end-2020) and is supported by robust liquidity in the banking system.

Economic Recovery: The economy has proved more resilient than our initial expectations. Real GDP contracted by 6.6% in 2020, a better outturn relative to the 8% contraction at our October 2020 rating review, mainly due to stronger domestic demand. We expect the recovery to be subdued in 2021, with real GDP growth of 2.6% as foreign tourism will take longer to gain sustained momentum. We expect growth to accelerate to 4.2% on a strong rebound in tourism flows with occupancy rates 20% below their end-2019 level.

Highly Capitalised Banks: We expect non-performing loans, particularly in the corporate sector related to tourism including commercial real estate, to increase over the coming months but the extent will depend on the pace of the recovery in tourism activity. Banks are highly capitalised and are in a fairly strong position to absorb shocks to asset quality. Non-performing loans were low at 3.2% in 3Q20 (2019: 2.9%) and corporate insolvencies so far have been muted.

Rating Sensitivities

Debt Rise, Prolonged Economic Weakness: The main factors that could, individually or collectively, lead to negative rating action are: evidence that the government's economic and fiscal strategy fails to arrest the increase in government debt/GDP over time; severe and prolonged economic weakness, for example due to a delayed recovery in export-oriented sectors, sustained correction in the housing market, and material adverse impact on the banks.

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

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 ' A' to ' A-.', but in our view this is a temporary deterioration
Source: Fitch Ratings

Applicable Criteria

Sovereign Rating Criteria (October 2020)
Country Ceilings Criteria (July 2020)

Related Research

Global Economic Outlook (March 2021)
What Investors Want to Know: Sovereign Ratings a Year into Coronavirus (March 2021)

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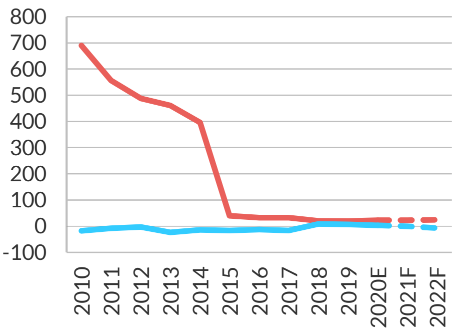
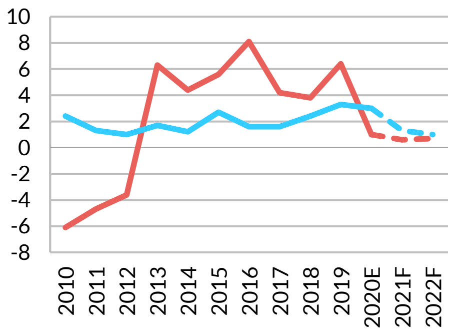
Peer Comparison

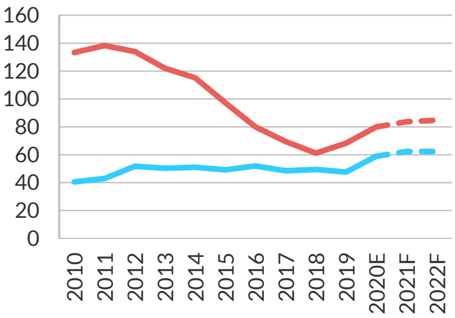
Net External Debt
% of GDP



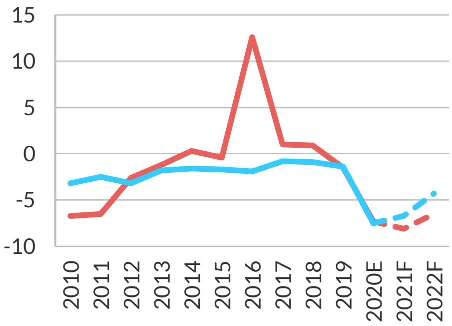
Current Account Balance
% of GDP



General Government Debt
% of GDP

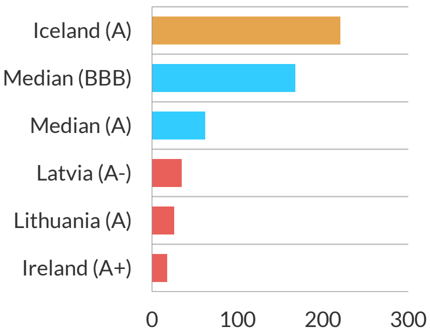


General Government Balance
% of GDP

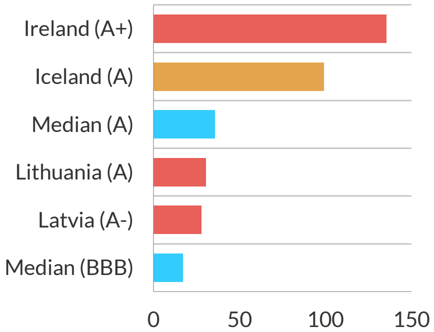


Iceland   Median (A)

International Liquidity Ratio, 2020
%



GDP Per Capita Income, 2020
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)	**2020**
GDP	21.7
GDP per head (USD, 000)	63.9
Population (m)	0.4
International reserves	6.4
Net external debt (% GDP)	22.8
Central government total debt (% GDP)	73.0
CG foreign-currency debt	1.9
CG domestically issued debt (ISKbn)	1,693.7

Source: Fitch Ratings

Rating Factors

Strengths

- Iceland ranks much higher on the World Bank Worldwide Governance Indicators, Human Development Index, and Ease of Doing Business 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, well above the 'A' peer current median (of four months).

Weaknesses

- Iceland is highly reliant on tourism. According to the World Travel & Tourism Council, in 2019 the sector accounted for 10.3% of GDP and 21.9% of employment.
- Volatility of real GDP growth and inflation are higher than the 'A' peer median.
- Gross general government debt was at 79.9% of GDP in 2020 well above the 'AA' 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 at 11% of GDP in 2020 marginally below the current 'A' median (14% of GDP).

Local-Currency Rating

Iceland's credit profile does not support uplifts of the Long-Term Local-Currency Issuer Default Rating (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 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

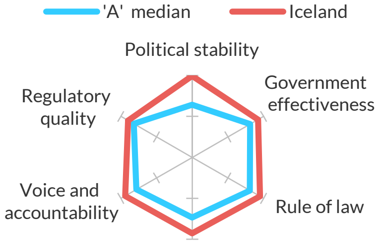
Rating History

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

Governance Indicators

Percentile rank



Source: Fitch Ratings, World Bank (2014)

Strengths and Weaknesses: Comparative Analysis

2020	Iceland A	A median[a]	BBB median[a]	Ireland A+	Lithuania A	Latvia A-
Structural features						
GDP per capita (USD, mkt exchange rates)	63,866	22,240	10,471	85,080	19,216	17,529
GNI per capita (PPP, USD, latest)	61,170	40,880	24,050	68,050	37,010	31,770
GDP (USDbn)	21.7			420.1	53.7	33.5
Human development index (percentile, latest)	97.8	82.0	67.3	98.9	82.4	80.8
Governance indicator (percentile, latest)[b]	94.0	76.0	58.4	89.2	79.5	75.1
Broad money (% GDP)	48.7	90.8	59.1	97.1	69.6	58.8
Default record (year cured)[c]	-	-	-	-	-	-
Ease of doing business (percentile, latest)	86.8	83.0	70.7	87.9	94.8	90.5
Trade openness (avg. of CXR + CXP % GDP)	37.1	63.2	46.5	151.2	78.6	65.9
Gross domestic savings (% GDP)	21.1	27.2	22.7	62.0	20.1	23.8
Gross domestic investment (% GDP)	21.7	24.3	23.6	36.8	12.0	22.6
Private credit (% GDP)	99.9	72.3	56.9	32.8	40.1	34.6
Bank systemic risk indicators[d]	n.a./1			bbb/1	n.a./1	n.a./1
Bank system capital ratio (% assets)	24.8	14.8	15.2	25.2	-	25.0
Foreign bank ownership (% assets)	-	46.0	30.0	19.5	-	-
Public bank ownership (% assets)	-	19.5	16.1	19.8	-	-
Macroeconomic performance and policies						
Real GDP (5yr average % change)	2.4	4.1	3.6	5.7	2.7	1.6
Volatility of GDP (10yr rolling SD)	3.6	2.5	2.9	7.5	2.0	2.7
Consumer prices (5yr average)	0.6	2.5	3.7	0.2	2.2	1.7
Volatility of CPI (10yr rolling SD)	2.3	1.8	2.2	0.7	1.6	1.5
Unemployment rate (%)	6.6	6.4	7.6	5.7	8.7	8.1
Type of exchange-rate regime	Floating			Free floating	Free floating	Free floating
Dollarisation ratio (% of bank deposits)	10.8	10.3	20.8	-	-	8.1
REER volatility (10yr rolling SD)	7.0	5.1	5.0	4.5	2.0	1.0

Source: Fitch Ratings

Strengths and Weaknesses: Comparative Analysis (Cont.)

2020	Iceland A	A median[a]	BBB median[a]	Ireland A+	Lithuania A	Latvia A-
Public finances[e]						
Budget balance (% GDP)	-7.3	-2.2	-2.3	-5.2	-7.7	-5.3
Primary balance (% GDP)	-4.4	-0.4	-0.3	-4.1	-7.2	-4.6
Gross debt (% revenue)	188.4	136.0	138.3	250.6	134.7	113.1
Gross debt (% GDP)	79.9	42.3	36.0	59.1	47.2	43.9
Net debt (% GDP)	64.0	37.5	30.2	52.4	39.0	37.0
Foreign-currency debt (% total debt)	11.1	10.8	34.6	0.2	10.8	9.6
Interest payments (% revenue)	6.8	4.7	6.9	4.6	1.4	1.8
Revenue and grants (% GDP)	42.4	35.9	30.5	23.6	35.1	38.8
Volatility of revenue/GDP ratio	10.7	5.4	6.1	18.6	2.3	1.8
Central govt. debt maturities (% GDP)	8.1	5.1	5.3	5.2	10.1	5.8
External finances						
Current account balance + net FDI (% GDP)	-1.4	2.4	0.5	14.8	8.3	4.8
Current account balance (% GDP)	1.0	0.9	-1.8	1.3	7.2	3.0
Net external debt (% GDP)	22.8	-9.6	6.8	-290.0	-7.6	17.3
Gross external debt (% CXR)	234.3	103.4	115.4	504.6	89.0	185.8
Gross sovereign external debt (% GXD)	18.1	16.6	31.2	6.2	63.9	52.4
Sovereign net foreign assets (% GDP)	14.4	14.1	2.8	-26.8	-38.5	-0.7
Ext. interest service ratio (% CXR)	4.8	2.3	4.3	5.2	1.3	0.9
Ext. debt service ratio (% CXR)	20.7	12.2	15.2	57.5	6.6	33.5
Foreign-exchange reserves (months of CXP)	9.7	4.4	5.0	0.1	1.3	2.9
Liquidity ratio (latest)[f]	207.1	114.3	151.2	17.5	26.0	35.0
Share of currency in global reserves (%)	0	0	0	21	21	21
Commodity export dependence (% CXR, latest)	50.6	10.6	20.1	4.6	25.3	25.6
Sovereign net foreign-currency debt (% GDP)	-20.7	-12.9	-6.6	-1.5	-3.0	-11.6

[a] Medians based on actual data since 2000 (excl. forecasts) for all sovereign-year observations where the sovereign was in the respective rating category at year-end. Three-year centred averages are used for the more dynamic variables (e.g. current account and fiscal balance)
[b] Composite of six World Bank Worldwide 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

Domestic Demand Mitigates Economic Hit

Iceland has suffered fewer Covid-19 cases and fatalities, and containment measures have been less strict relative to the rest of Europe. Preliminary data from Statistics Iceland indicate that real GDP contracted by 6.6% in 2020, a less severe outturn relative to the 8% contraction at our October 2020 rating review, mainly due to stronger domestic demand. Strong household balance sheets and government support measures contributed to a rebound in private consumption in 2H20.

The large pool of pension savings has acted as an important economic stabiliser, with many households having taken advantage of the option of withdrawing third-pillar pension savings to support consumption. Gross fixed investment was more dynamic due to stronger activity in residential construction, reflecting strong demand and easing financial conditions. The sharp decline in exports (-30.5%) was the main driver of the contraction, mostly due to a 76% drop in tourist arrivals.

The impact of the pandemic on the other two major industries (fishing and aluminium products) has also been less negative than expected. The weaker krona and solid demand for fish during the summer have supported an increase in the value of marine products' exports. The recovery in China has led to a sharp rise in aluminium prices, which has supported the sector. Aluminium exports rose by 5% yoy (in volume terms) in 2H20 and declined by 2% for the whole year, a smaller-than-expected reduction.

Pace of Recovery Relies on Tourism

We expect the recovery to be subdued this year, with real GDP growth of 2.6% as foreign tourism will take longer to gain sustained momentum. Tourist arrivals will recover gradually and we expect hotel occupancy rates for foreign tourists to be 55% of their 2019 levels in 2021. The slow vaccination rollout in most of Europe is a downside risk. Conversely, public investment should pick up owing to the government's ISK27 billion (0.9% of GDP in 2021) investment and construction initiative. We estimate that real GDP growth will pick up from 2H21.

A much stronger carryover effect from growth in 2H21 and the expectation that social-distancing rules and travel restrictions will be relaxed significantly across all Iceland's trading partners underpin our view that real GDP growth will accelerate to 4.2% in 2022. We expect a stronger rebound in tourism flows with 2022 occupancy rates 20% below their end-2019 level.

The labour market has deteriorated markedly. The unemployment rate peaked at 9% in October 2020 from 4% in January 2020 pre-pandemic. On average for the whole of 2020, the unemployment rate rose to 6.5% from 3.9% in 2019. There also has been a sharp rise in labour market inactivity; the activity rate declined to 76.7% in January 2021 from 78.9% a year earlier. The recovery in the labour market is closely linked to the tourism sector, which accounted for 21.9% of employment at end-2019. We expect the unemployment rate to rise further to 7.8% in 2021 (not far from the peak of 8.3% during the global financial crisis) before declining to 6.4% in 2022 when the recovery of the tourism sector is set to gather momentum.

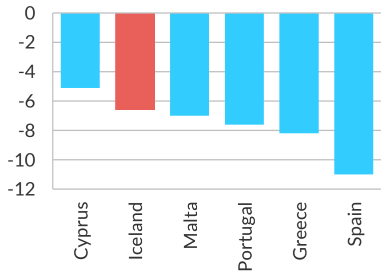
Sharp Deterioration in Fiscal Metrics

The severe GDP contraction and the government's fiscal-support measures have caused a sharp deterioration in the fiscal metrics. The general government deficit widened to 7.3% of GDP in 2020 from 1.5% in 2019. However, the outturn was markedly stronger relative to our expectations at the October 2020 rating review (-10.9% of GDP), owing to higher-than-expected revenue (1% of GDP above budget), lower expenditure (1.4%-of-GDP below budget) and stronger nominal GDP growth.

The government's fiscal plan for 2021-2025 envisages an expansionary fiscal stance until 2022 while it backloads fiscal consolidation from 2023, with the target of stabilising the debt-to-GDP ratio by 2025. We expect the general government deficit to widen further to 8.1% of GDP in 2021 due to additional stimulus measures outlined in the 2021 budget. We estimate the direct cost of fiscal policy measures at 3.5% of GDP in 2021. These consist of specific government support measures to offset the negative impact of Covid-19; extension of the partial unemployment benefit scheme; and a reduction in dividends from state-owned companies.

Real GDP Contraction

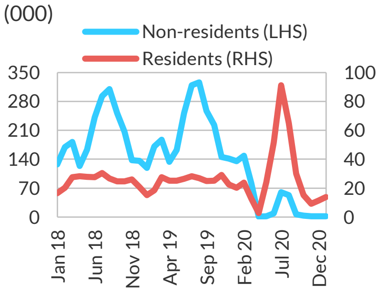
Countries reliant on tourism



Source: Fitch Ratings, Eurostat

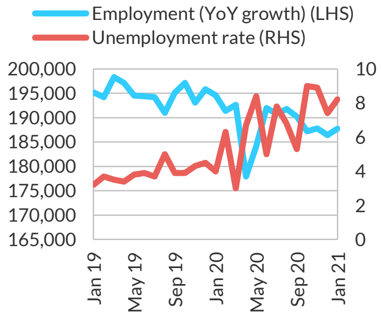
Arrivals in Hotels

(000)



Source: Fitch Ratings, Statistics Iceland, Haver Analytics

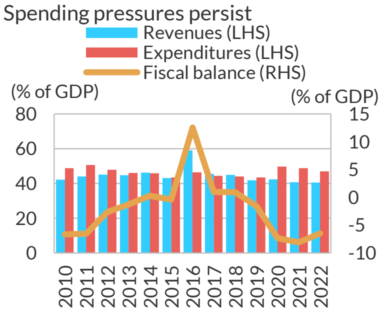
Labour Market Trends



Source: Fitch Ratings, Statistics Iceland

Public Finance Outlook

Spending pressures persist



Source: Fitch Ratings, Statistics Iceland

We expect the deficit to narrow to 6.5% of GDP in 2022. In our view, expenditure will decline only very gradually relative to GDP as we expect political pressure to maintain higher level of spending after the pandemic, particularly in welfare and healthcare spending but also to boost infrastructure investment. Fitch forecasts gross general government debt to increase to 83.7% of GDP in 2021 and to 84.7% in 2022, from 79.9% in 2020. We expect public debt to peak at 85.3% of GDP in 2023 and to decline very slowly thereafter.

Statistics Iceland has carried out a comprehensive revision of the public finance statistics, following recommendations by Eurostat. General government debt levels have been revised significantly higher (31pp of GDP in 2019) due to the inclusion of several state-owned entities (the two largest being the Housing Finance Fund and the Student Loan Fund) into the general government scope. At the same time, the revision implies that the size of contingent liabilities is markedly smaller. Prior to the reclassification, we had treated SOE debt as contingent liabilities for the sovereign's balance sheet.

Potential Spillovers to the Real-Estate Sector

In the event of a more prolonged slowdown in the tourism sector, we see risks spilling over to other sectors of the economy, such as real estate and banks. Commercial banks' loan exposure to construction, real estate and retail account for 25% of the total at end-2019, with the tourism sector estimated at 9% of the loan book. The expiration of pandemic-related loan moratoria has led to a substantial increase in loans on forbearance. We expect non-performing loans, particularly in the corporate sector related to tourism including commercial real estate, to increase over the coming months but the extent will depend on the pace of the recovery in tourism activity.

The large exposure to real estate and tourism poses risks to the financial sector. Although asset quality is likely to deteriorate in 2021, mainly due to the exposure to the tourism sector, banks are now in a stronger position relative to the global financial crisis. Banks are highly capitalised with an aggregated capital adequacy ratio of 24.5% in 3Q20, improved from its 2019 level. Non-performing loans were low at 3.2% in 3Q20 (2019: 2.9%) and corporate insolvencies so far have been muted; they declined at end-2020 relative to 2019.

The central bank cut the key interest rate five times in 2020 by a cumulative 225bp to 0.75%. Interest rate cuts and the reduction in the countercyclical capital buffer have benefitted mostly the household sector. Conversely, lending growth to the corporate sector has been more subdued throughout the year. Net new lending to households rose sharply in 2020 and supported strong demand for housing which, in turn, underpinned a strong rise in construction activity and house prices. As of February 2021, 84% of new mortgage loans was on a floating rate; a rise in long-term interest rates on the bond market could be reflected in mortgage rates over time. This could impact negatively housing demand and prices.

Resilient Current Account; Krona's Gradual Depreciation

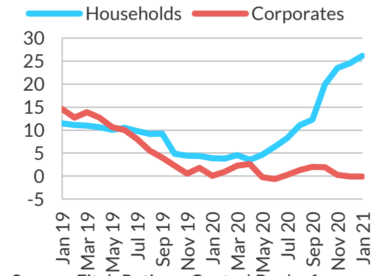
External finances have been broadly resilient to the downturn in the tourism sector. We estimate the current account posted a surplus of 1% of GDP as the decline in exports was offset by import compression and low energy prices. The krona has depreciated by 10% against the US dollar in an orderly manner throughout the year, partly supported by the central bank's regular sales of foreign currency.

Pension funds are dominant participants in the domestic financial market and their activities have a strong impact on the currency. In 2020, pension funds reduced their purchases of foreign assets relative to 2019, following a pledge to refrain from investing their assets abroad in 1H20. As a result, FX purchases by pension funds were ISK38.6 billion (1.3% of GDP) in January-August 2020 compared to ISK92.5 billion (3% of GDP) for the same period in 2019. In 2H20, pension funds did not renew their pledge and stepped up purchases of foreign assets, thus placing pressure on the krona.

Diversification in foreign markets is not new. Over the past three years, pension funds' purchases of foreign assets have averaged ISK100 billion (3.4% of 2020 GDP) a year and the krona has depreciated by 18% against the US dollar since 2017. We expect pension funds to continue diversifying their assets abroad given the reduced differential between international and domestic interest rates. However, we expect the process to remain orderly and gradual. The risk of sudden sharp capital outflows from pension funds remains low, as we believe it would not be in the funds' interest to destabilise excessively the krona. Among other things, a weaker currency would hurt their stock market value and inflate their own pension liabilities.

Bank Loans

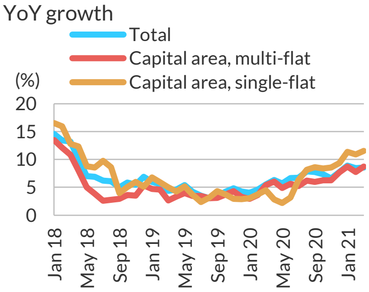
YoY growth



Source: Fitch Ratings, Central Bank of Iceland

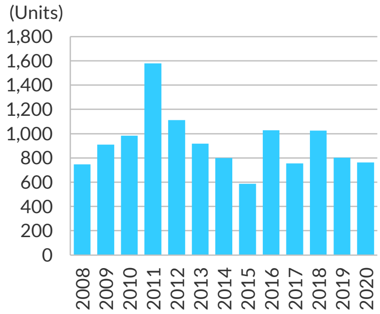
House Prices

YoY growth



Source: Fitch Ratings, Statistics Iceland, Haver Analytics

Corporate Insolvencies



Source: Fitch Ratings, Statistics Iceland

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

Public Debt Dynamics

According to Fitch's baseline projections, GGGD should peak at 85.1% of GDP by 2023. In a scenario of looser fiscal policy, the debt ratio would rise to 89% by 2025. A high-interest-rate scenario would see the debt continuing to rise over time and reach 90% of GDP by 2025.

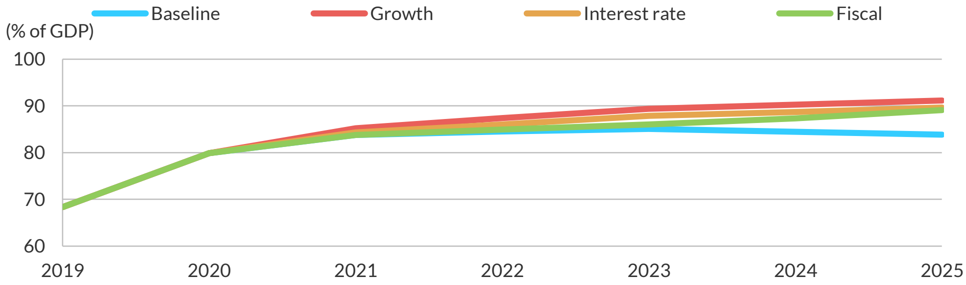
Debt Dynamics: Fitch's Baseline Assumptions

	2019	2020	2021	2022	2023	2024	2025
Gross general government debt (% of GDP)	68.3	79.9	83.8	84.6	85.1	84.5	83.9
Primary balance (% of GDP)	1.0	-4.4	-5.2	-3.6	-2.5	-1.0	-0.6
Real GDP growth (%)	2.6	-6.6	2.6	4.6	3.5	3.0	2.5
Avg. nominal effective interest rate (%)	4.4	4.1	3.6	3.3	3.1	3.1	3.0
ISK/USD (annual avg.)	122.61	135.42	129.61	133.0	134.0	134.0	134.0
GDP deflator (%)	4.5	3.4	2.9	2.4	2.0	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	Slow deficit reduction: primary deficit of 3.0% of GDP by 2025 vs 0.6% under the baseline

Source: Fitch Ratings Debt Dynamics Model

Forecast Summary

	2016	2017	2018	2019	2020E	2021F	2022F
Macroeconomic indicators and policy							
Real GDP growth (%)	6.6	4.5	4.7	2.6	-6.6	2.6	4.6
Unemployment (%)	3.3	3.3	3.1	3.9	6.5	7.8	6.4
Consumer prices (annual average % change)	0.8	-1.6	0.7	2.0	1.2	2.5	2.0
Short-term interest rate (bank policy annual avg). (%)	4.8	4.0	4.3	2.8	0.5	1.8	2.5
General government balance (% of GDP)	12.6	1.0	0.9	-1.5	-7.3	-8.1	-6.5
General government debt (% of GDP)	79.9	69.4	61.1	68.3	79.9	83.7	84.7
ISK per USD (annual average)	120.83	106.82	108.30	122.61	135.42	129.61	133.00
Real effective exchange rate (2000 = 100)	93.5	104.7	102.0	95.1	87.9	89.7	93.2
Real private-sector credit growth (%)	4.1	10.3	11.9	1.9	8.1	0.5	0.0
External finance							
Current account balance (% of GDP)	8.1	4.2	3.8	6.4	1.0	0.6	0.7
Current account balance plus net FDI (% of GDP)	11.5	4.9	2.0	3.3	-1.4	0.4	0.5
Net external debt (% of GDP)	32.6	31.9	19.8	19.6	21.3	21.5	23.1
Net external debt (% of CXR)	60.8	63.9	39.3	40.7	56.8	58.3	60.8
Official international reserves including gold (USDbn)	7.2	6.6	6.3	6.8	6.4	6.1	5.4
Official international reserves (months of CXP cover)	9.2	7.0	6.2	7.8	9.7	8.4	6.9
External interest service (% of CXR)	5.5	4.5	3.7	3.6	4.8	4.3	4.1
Gross external financing requirement (% int. reserves)	-17.6	-0.5	17.3	1.3	15.8	11.9	26.0
Real GDP growth (%)							
US	1.7	2.3	3.0	2.2	-3.5	6.2	3.3
China	6.7	6.9	6.8	6.0	2.3	8.4	5.5
Eurozone	2.0	2.4	1.9	1.3	-6.6	4.7	4.5
World	2.6	3.4	3.2	2.6	-3.4	6.1	3.9
Oil (USD/barrel)	45.1	54.8	71.5	64.1	41.0	45.0	50.0

Source: Fitch Ratings

Fiscal Accounts Summary

(% of GDP)	2017	2018	2019	2020E	2021F	2022F
General government						
Revenue	**45.5**	**44.9**	**41.9**	**42.4**	**40.7**	**40.5**
Expenditure	**44.5**	**44.0**	**43.4**	**49.7**	**48.8**	**47.0**
O/w interest payments	3.8	2.8	2.5	2.9	2.9	2.9
Primary balance	4.8	3.7	1.0	-4.4	-5.2	-3.6
Overall balance	**1.0**	**0.9**	**-1.5**	**-7.3**	**-8.1**	**-6.5**
General government debt[a]	**69.4**	**61.1**	**68.3**	**79.9**	**83.7**	**84.7**
% of general government revenue	152.6	136.2	163.0	188.4	205.6	209.1
Central government deposits	7.2	7.9	8.4	15.9	15.0	14.0
Net general government debt	62.2	53.2	60.0	64.0	68.7	70.6
Central government						
Revenue	**34.2**	**33.5**	**30.7**	**30.3**	**29.1**	**28.9**
O/w grants	0.5	0.5	0.5	0.6	0.6	0.6
Expenditure and net lending	**31.9**	**32.2**	**31.8**	**37.1**	**36.4**	**35.1**
O/w current expenditure and transfers	30.4	30.7	30.2	35.3	34.7	33.4
- Interest	5.4	4.6	4.0	3.6	3.8	3.9
O/w capital expenditure	1.5	1.5	1.6	1.8	1.8	1.7
Current balance	3.7	2.8	0.5	-5.0	-5.6	-4.5
Primary balance	7.6	5.9	2.9	-3.2	-3.5	-2.3
Overall balance	**2.2**	**1.3**	**-1.1**	**-6.8**	**-7.4**	**-6.2**
Central government debt	63.2	55.6	62.4	73.0	76.5	77.4
% of central government revenues	185.1	166.1	203.4	241.0	263.0	267.4
Central government debt (ISKbn)	**1,670.3**	**1,580.0**	**1,901.4**	**2,146.2**	**2,376.2**	**2,573.7**
By residency of holder						
Domestic	1,558.3	1,469.9	1,812.0	2,049.6	2,269.3	2,458.0
Foreign	112.0	110.1	89.4	96.5	106.9	115.8
By currency denomination						
Local currency	1,553.8	1,455.4	1,714.8	1,900.3	2,168.1	2,348.4
Foreign currency	116.5	124.6	186.6	245.9	208.0	225.3
In USD equivalent (eop exchange rate)	1.1	1.1	1.5	1.9	1.6	1.7
Average maturity (years)	6.3	6.3	5.5	4.8	-	-
Memo						
Nominal GDP (ISKbn)	2,642.0	2,840.1	3,045.1	2,940.6	3,106.7	3,326.6

Source: Fitch Ratings, Ministry of Finance

External Debt and Assets

(USDbn)	2015	2016	2017	2018	2019	2020
Gross external debt	**30.5**	**26.0**	**22.5**	**20.1**	**19.2**	**18.7**
% of GDP	174.2	125.2	91.0	76.6	77.2	86.3
% of CXR	303.4	233.8	182.8	152.1	160.2	229.6
By maturity						
Medium- and long-term	19.1	24.4	21.0	18.7	17.9	17.3
Short-term	11.4	1.7	1.6	1.4	1.3	1.4
% of total debt	37.5	6.4	6.9	7.1	6.9	7.7
By debtor						
Sovereign	**4.5**	**3.9**	**2.8**	**2.5**	**3.0**	**2.7**
Monetary authorities	0.3	0.4	0.4	0.4	0.5	0.4
General government	4.2	3.5	2.4	2.1	2.4	2.4
O/w central government	1.7	1.3	1.1	0.9	0.7	0.8
Banks	**2.2**	**4.2**	**5.8**	**5.9**	**5.5**	**5.5**
Other sectors	**23.8**	**17.9**	**14.0**	**11.7**	**10.7**	**10.5**
Gross external assets (non-equity)	**23.6**	**19.3**	**14.6**	**14.9**	**14.3**	**14.1**
International reserves, incl. gold	5.0	7.2	6.6	6.3	6.8	6.4
Other sovereign assets nes	0.0	0.0	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	2.8	2.3	3.1	3.6	3.1	3.4
Other sector foreign assets	15.9	9.8	5.1	5.0	4.5	4.4
Net external debt	**7.0**	**6.8**	**7.9**	**5.2**	**4.9**	**4.6**
% of GDP	39.7	32.6	31.9	19.8	19.6	21.3
Net sovereign external debt	-0.5	-3.4	-3.8	-3.8	-3.8	-3.7
Net bank external debt	-0.5	2.0	2.8	2.3	2.5	2.2
Net other external debt	8.0	8.1	8.9	6.7	6.1	6.1
Net international investment position	**-0.9**	**0.4**	**0.5**	**2.3**	**5.4**	**8.2**
% of GDP	-5.2	2.0	2.0	8.8	21.6	37.6
Sovereign net foreign assets	**0.5**	**3.4**	**3.8**	**3.8**	**3.8**	**3.7**
% of GDP	3.1	16.1	15.4	14.5	15.3	17.1
Debt service (principal & interest)	**25.9**	**1.4**	**1.6**	**2.6**	**2.1**	**1.7**
Debt service (% of CXR)	257.1	12.7	12.7	19.7	17.5	20.7
Interest (% of CXR)	9.1	5.5	4.5	3.7	3.6	4.8
Liquidity ratio (%)	13.5	54.8	192.0	164.8	188.6	207.1
Net sovereign FX debt (% of GDP)	-15.3	-26.1	-22.0	-20.0	-21.1	-20.5
Memo						
Nominal GDP	17.5	20.8	24.7	26.2	24.8	21.7
Inter-company loans	8.8	10.2	6.4	4.5	4.6	3.9

Source: Fitch Ratings, central bank, IMF and World Bank

Balance of Payments

(USDbn)	2017	2018	2019	2020E	2021F	2022F
Current account balance	**1.0**	**1.0**	**1.6**	**0.2**	**0.1**	**0.2**
% of GDP	4.2	3.8	6.4	1.0	0.6	0.7
% of CXR	8.5	7.5	13.2	2.8	1.6	1.9
Trade balance	**-1.5**	**-1.5**	**-0.9**	**-0.7**	**-0.8**	**-1.0**
Exports, fob	5.0	5.7	5.3	4.6	4.9	5.1
Imports, fob	6.5	7.2	6.2	5.3	5.7	6.1
Services, net	**2.6**	**2.4**	**2.1**	**0.5**	**0.7**	**0.9**
Services, credit	6.3	6.5	5.7	2.8	3.0	3.5
Services, debit	3.7	4.2	3.6	2.2	2.3	2.5
Income, net	**0.1**	**0.3**	**0.5**	**0.5**	**0.4**	**0.4**
Income, credit	0.8	0.7	0.7	0.5	0.7	0.7
Income, debit	0.7	0.4	0.2	0.0	0.3	0.3
O/w: Interest payments	0.6	0.5	0.4	0.4	0.4	0.4
Current transfers, net	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.1**	**-0.1**
Capital and financial accounts						
Non-debt-creating inflows (net)	1.7	1.6	0.7	1.1	0.5	0.3
O/w equity FDI	0.5	1.0	-0.9	0.2	0.3	0.2
O/w portfolio equity	1.2	0.6	1.6	0.9	0.2	0.1
O/w other flows	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves	-0.8	0.0	0.6	-0.2	-0.3	-0.7
Gross external financing requirement	**0.0**	**1.1**	**0.1**	**1.1**	**0.8**	**1.6**
Stock of international reserves, incl. gold	**6.6**	**6.3**	**6.8**	**6.4**	**6.1**	**5.4**

Source: Fitch Ratings, IMF

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