Iceland

Full Rating Report

Ratings

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

Outlooks

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

Financial Data

Iceland

(USDm)	2019
GDP	25,034.7
GDP per head (USD 000)	70.3
Population (m)	0.4
International reserves	6,351.1
Net external debt (% GDP)	15.6
Central government total debt (% GDP)	28.3
CG foreign-currency debt	1,015.6
CG domestically issued debt (ISKm)	0

Rating Derivation

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

Source: Fitch Ratings

Related Research

Global Economic Outlook (June 2019)

Sovereign Data Comparator (June 2019)

Western Europe Sovereign Credit Overview - 3Q19 (July 2019)

Analysts

Eugene Chiam
+44 20 3530 1512
eugene.chiam@fitchratings.com

Douglas Winslow
+44 20 3530 1721
douglas.winslow@fitchratings.com

Key Rating Drivers

Strong Structurals; Weak Externals: Iceland has a very high income per capita and outperforms its peers on governance, human development and doing business metrics. These strengths are set against the small size of the economy and limited export diversification, resulting in vulnerability to external shocks and macroeconomic and financial volatility.

Cyclical Growth Slowdown Under Way: Real GDP growth is slowing from a cyclical high of 6.6% in 2016 as the overheated tourism sector cools. We forecast growth to fall to 0.0% in 2019 as a result of short-term shocks in tourism and fisheries, but to recover to 2.5% in 2020 and to average 2.0% in the medium term.

Temporary Shocks Exacerbate Slowdown: The troubled budget airline Wow Air's collapse in March 2019 , the grounding of IcelandAir's Boeing 737 Max jets, and the absence of capelin in Iceland's waters have adversely affected tourism and the volatile pelagic fishing sector in Iceland. Growing tourism consumption should partly compensate for lower arrivals in 2H19.

Labour Market Tensions Eased: Wow Air's collapse precipitated a private sector wage agreement amounting to average salary increases of 3.6% per year for the next four years. This round of talks had been more acrimonious than previous rounds, with increased strikes. National wage growth should be contained at 4.5% yoy in 2019 and 2020, limiting upward pressure on inflation and further loss of competitiveness.

Improved But Weak Externals: Net external debt has fallen rapidly to 24% of GDP at end-2018, but remains above the current 'A' median of 16%. Iceland has high dependence on commodity exports and lacks diversification in its export base, which makes the economy vulnerable to terms of trade shocks and the krona sensitive to capital flows.

Fiscal Surpluses Reducing Debt: Fitch Ratings forecasts the general government surplus to narrow to 0.6% of GDP in 2019 (2018: 1.1%), before improving slightly to 0.8% in 2020. This compares favourably to a budget deficit of 1.4% of GDP for the current 'A' median. Public debt has dropped to 36% of GDP, slightly below the 'A' and 'AA' medians.

High Income, Strong Policy-making: Iceland has a very high income per capita, estimated at USD70,332 in 2019, aligning it more with the 'AAA' median of USD60,953. Performance on measures of governance, human development and ease of doing business are also more in line with 'AAA' and 'AA' rated countries. Broad political consensus among political parties on economic and fiscal policies has underpinned the rebuilding of fiscal and external buffers.

Rating Sensitivities

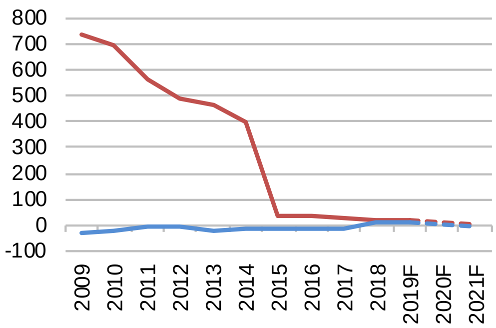
Public Debt Reduction: A sustained fall in the public debt ratio, supported by prudent fiscal policy could result in a positive rating action.

External Finance Resilience: Sustained improvement in the external balance sheet and increased resilience of the economy to external shocks would be positive for Iceland's ratings. Conversely, excessive capital outflows jeopardising financial stability and weakening external buffers would be negative for the ratings.

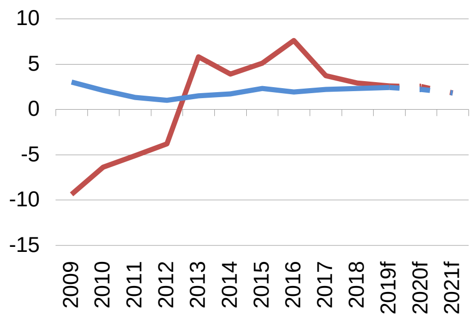
Growth Shock Affecting Banks: A sustained and sharper-than-expected economic downturn affecting the banking sector (eg through the real estate market) could weigh on the ratings.

Peer Comparison

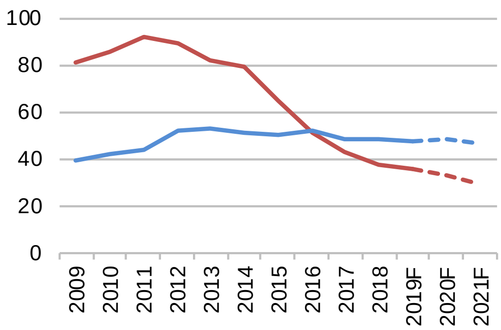
Net External Debt
% of GDP



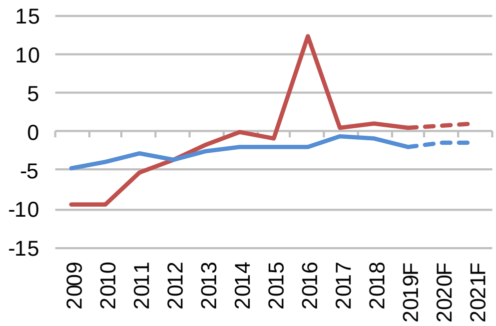
Current Account Balance
% of GDP



General Government Debt
% of GDP

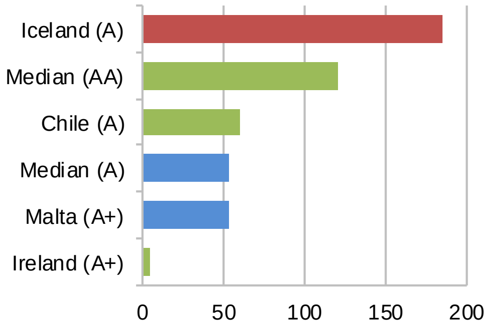


General Government Balance
% of GDP



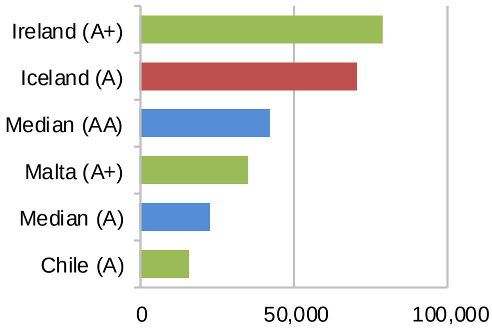
Iceland
Median(A)

International Liquidity Ratio, 2019F %



GDP per Capita Income, 2019F

At market exchange rates, USA=100



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

Related Criteria

Sovereign Rating Criteria (May 2019)
Country Ceilings Criteria (July 2019)

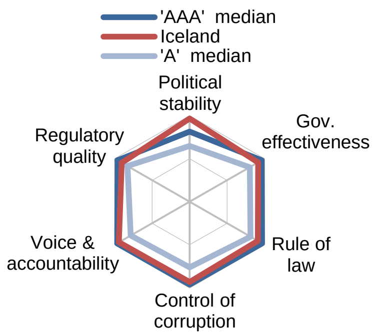
Peer Group

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

Governance Indicators
Percentile rank



Source: Fitch Ratings, World Bank

Rating Factors

Summary: Strengths and Weaknesses

Rating factor	Macroeconomic	Public finances	External finances	Structural issues
Status	Weakness	Neutral	Weakness	Strength
Trend	Stable	Positive	Stable	Stable

Note: Relative to 'A' category
Source: Fitch Ratings

Strengths

- Iceland ranks much higher on the World Bank 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.
- Gross general government debt/GDP at 35.7% in 2019 is slightly lower than the medians and should fall further. This is driven by a general government fiscal surplus forecast to average 0.7% of GDP, significantly better than the medians.
- Five-year average real GDP growth is consistent with 'A' rated peers, while five-year average HICP inflation is lower. The unemployment rate is at a low 3.3%.
- Fitch forecasts FX reserves to be robust at 6.1 months of current external payments at end-2019.

Weaknesses

- The small economy has high commodity export dependence (37.6% of current external receipts against the 'A' median of 11.4%). The lack of diversification in Iceland's export base makes it vulnerable to terms-of-trade shocks.
- Volatility of real GDP growth, inflation and the REER are higher than the medians.
- Gross and net external debt metrics are still higher than the medians despite rapid reduction in external debt.
- Iceland's public debt interest payments and the share of public debt maturing in a year are higher than the 'A' median.

Local-Currency Rating

Iceland's credit profile does not support uplifts of the Long-Term Local-Currency IDR above the Long-Term Foreign-Currency IDR. In Fitch's view, neither of the two key factors supporting upward notching of the Long-Term Local-Currency IDR cited in the criteria are present: strong public finance fundamentals relative to external finance fundamentals; and previous preferential treatment of local-currency creditors relative to foreign-currency creditors.

Country Ceiling

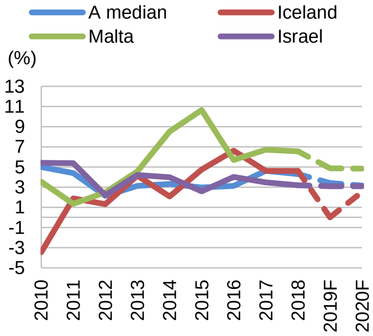
Fitch lifted Iceland's Country Ceiling to 'A+' at the May 2019 rating review, one notch above Iceland's Long-Term Foreign-Currency IDR. This reflects the track record of liberalisation of capital controls since 2016. In March 2019, the remaining offshore krona assets that were restricted from conversion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

Strengths and Weaknesses: Comparative Analysis

2019	Iceland A	A median	AA median	Ireland A+	Malta A+	Chile A
Macroeconomic performance and policies						
Real GDP (5yr average % change)	4.1	4.1	2.9	9.6	7.1	2.4
Volatility of GDP (10yr rolling SD)	2.9	2.5	2.1	7.1	2.8	1.8
Consumer prices (5yr average)	0.3	2.5	2.3	0.4	1.4	3.1
Volatility of CPI (10yr rolling SD)	2.9	1.8	1.3	1.0	0.8	1.0
Unemployment rate (%)	3.3	6.5	5.0	5.3	3.5	6.7
Type of exchange rate regime	Floating	n.a.	n.a.	Free floating	Free floating	Free floating
Dollarisation ratio (% of bank deposits)	-	10.1	13.4	-	14.9	12.7
REER volatility (10yr rolling SD)	5.3	5.1	4.3	6.1	3.4	3.9
Structural features						
GDP per capita (USD, mkt exchange rates)	70,332	22,914	42,236	78,894	34,922	15,650
GNI per capita (PPP, USD, latest)	53,280	33,980	46,820	61,910	36,740	23,670
GDP (USDbn)	25.0	n.a.	n.a.	381.3	15.1	288.8
Human development index (percentile, latest)	97.3	81.0	88.7	98.4	85.1	77.1
Governance indicator (percentile, latest)[b]	92.8	75.9	84.6	89.1	85.3	78.5
Broad money (% GDP)	43.1	88.9	97.4	77.5	164.9	116.7
Default record (year cured)[c]	-	n.a.	n.a.	-	-	1990
Ease of doing business (percentile, latest)	89.5	83.0	88.5	88.4	56.1	70.9
Trade openness (avg. of CXR + CXP % GDP)	51.0	62.0	46.7	146.5	211.3	36.6
Gross domestic savings (% GDP)	23.6	27.5	26.3	57.3	39.8	22.0
Gross domestic investment (% GDP)	21.1	23.7	23.2	25.4	19.8	23.3
Private credit (% GDP)	95.9	73.5	100.9	40.4	75.6	79.4
Bank systemic risk indicators[d]	- / 1	n.a.	n.a.	bbb / 1	- / 1	a / 1
Bank system capital ratio (% assets)	-	14.7	14.9	-	21.8	13.3
Foreign bank ownership (% assets)	-	48.1	28.0	-	-	55.9
Public bank ownership (% assets)	-	15.8	17.7	-	-	16.3
External finances						
Current account balance + net FDI (% GDP)	3.0	2.2	0.5	6.2	79.1	-1.7
Current account balance (% GDP)	2.6	0.9	1.6	8.8	9.5	-3.0
Net external debt (% GDP)	15.6	-9.7	-12.1	-335.0	-127.4	19.6
Gross external debt (% CXR)	144.8	104.0	213.3	474.7	328.7	189.0
Gross sovereign external debt (% GXD)	13.6	16.4	15.3	7.2	1.7	14.7
Sovereign net foreign assets (% GDP)	15.1	14.6	4.3	-31.0	49.4	12.7
Ext. interest service ratio (% CXR)	3.4	2.3	4.5	4.8	4.8	7.7
Ext. debt service ratio (% CXR)	16.1	11.7	27.6	58.8	48.0	42.3
Foreign exchange reserves (months of CXP)	6.1	4.4	2.9	0.1	0.4	4.3
Liquidity ratio (latest)[e]	184.8	111.5	78.7	3.9	53.4	60.3
Share of currency in global reserves (%)	0	n.a.	n.a.	21	20	0
Commodity export dependence (% CXR, latest)	37.6	10.6	16.9	6.2	6.1	63.6
Sovereign net foreign currency debt (% GDP)	-21.3	-12.0	-7.8	-1.2	-6.8	-8.2
Public finances[f]						
Budget balance (% GDP)	0.6	-2.3	-0.4	0.1	0.9	-2.1
Primary balance (% GDP)	3.4	-0.4	1.4	1.6	2.3	-1.2
Gross debt (% revenue)	84.1	134.1	106.6	241.0	112.4	114.4
Gross debt (% GDP)	35.7	42.6	39.0	61.4	43.3	26.9
Net debt (% GDP)	28.0	37.6	27.9	57.6	35.4	21.2
Foreign currency debt (% total debt)	11.4	11.5	0.8	0.0	0.0	20.6
Interest payments (% revenue)	6.6	4.8	4.0	5.8	3.7	3.7
Revenues and grants (% GDP)	42.5	36.1	40.3	25.5	38.5	23.6
Volatility of revenues/GDP ratio	12.4	5.5	5.1	15.6	1.5	2.8
Central govt. debt maturities (% GDP)	7.1	4.9	7.0	5.9	3.3	0.3

[a] Medians based on actual data since 2000 (excl. forecasts) for all sovereign-year observations where the sovereign was in the respective rating category at year-end. Three-year centred averages are used for the more dynamic variables (e.g. current account and fiscal balance)
[b] Composite of six World Bank Governance Indicators used in the Sovereign Rating Model; Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence
[c] No modern history of default
[d] Bank systemic indicator, which equates to a weighted average Viability Rating; and macro prudential indicator, with 1 'low' systemic risk through to 3 'high'
[e] Ratio of liquid external assets, defined as the stock of official FX reserves including gold at the end of the previous calendar year plus banks' liquid external assets, to liquid external liabilities, defined as scheduled external debt service in the current year, plus the stock of short-term external debt and all non-resident holdings of marketable medium- and long-term local-currency debt at the end of the previous calendar year
[f] General government unless stated
Note: Acronyms used: Consumer Price Inflation (CPI), Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Gross National Income (GNI), Purchasing Power Parity (PPP), Standard Deviation (SD), Foreign Direct Investment (FDI)
Source: Fitch Ratings

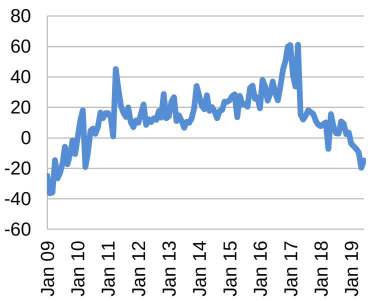
Real GDP Growth Slowing to 'A' Peers Level



Source: Fitch Ratings

Airport Arrivals Falling

% chg yoy



Source: Fitch Ratings, Statistics Iceland

Key Credit Developments

Tourism and Fisheries Shock Hits 2019 Growth

Fitch revised down real GDP growth in 2018 to 4.6%, from 4.9% at the time of its December 2018 review. Growth was fairly broad, driven especially by strong private consumption supported by low unemployment, robust wage growth and a robust but weakening tourism sector.

We forecast real GDP to be unchanged in 2019, a downward revision from 3.0% growth at the time of our December 2019 review as a result of short-term shocks in tourism and fisheries. We expect investments to contract sharply as sentiment is weighed down by the shock in the tourism sector, while net exports contract by a lesser amount. Private consumption should slow but continue to contribute positively to growth in Iceland as general pessimism from labour tensions fades. The economy should recover from the short-term shocks by 2H19, and we forecast real GDP growth to bounce back to 2.5% in 2020.

WowAir Collapse, Boeing Jets Grounded, Capelin Failure

The troubled budget airline WowAir's collapse in March 2019 accelerated the slowdown in the tourism sector and is causing a contraction in tourism capacity. This was compounded by the grounding of IcelandAir's Boeing 737 MAX jets (roughly a quarter of its fleet). Foreign tourists through Keflavik Airport in the year to June 2019 decreased by 12% yoy, and the airport management authority forecasts a 17% contraction of passenger arrivals for the whole year in 2019. This is notwithstanding increased flights by other airlines to respond to the shock.

Industry participants expect air passenger capacity in Iceland to be partly restored by the peak tourist season in summer 2019 as replacement IcelandAir aircraft and expanded operations at other airlines are brought in to cover the shortfall. We also expect the near-term shock in tourism to weigh on the Icelandic housing market, where prices rose rapidly in tandem with the boom in tourism.

The volatile pelagic fishing industry also suffered a shock in the first few months of 2019, with the disappearance of capelin from Icelandic waters. Capelin exports accounted for 0.5% of GDP in 2018, but the loss should be partly offset by growing fish farming industry exports, which could become an established sector with a more stable source of export income.

Wage Negotiation Tensions Mostly Resolved

The collapse of WowAir precipitated the conclusion of the key private sector wage negotiations, which have been more acrimonious than in recent rounds. The rise of dynamic new far-left trade union leaders led to a pick-up in tourism and transport sector strikes that sought to advance the interests of the growing number of low-paid foreign workers.

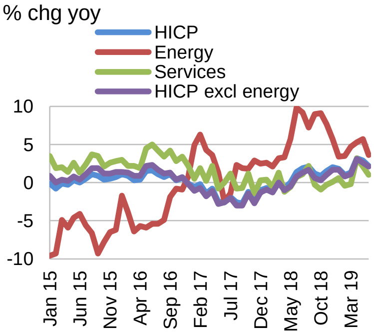
The outcome of the wage round was relatively moderate, amounting to average increases of 3.6% a year over the next four years. They are denominated in krona and benefit lower-paid workers in a progressive way. A link between further wage increases and faster GDP per capita growth was also included, which could result in faster wage growth towards the end of the four-year agreement, but prevents unit labour costs from outpacing productivity.

Public sector negotiations are still ongoing, and Fitch expects moderate wage rises in line with the outcomes in the private sector. Fitch expects national average wages to grow by roughly 4.5% yoy in 2019 and 2020, resulting in a small growth in real wages.

The unemployment rate rose to 4.7% in May 2019, reflecting near-term growth shocks. Fitch forecasts the unemployment rate to average 3.3% in 2019 and 3.5% in 2020 as the near-term growth shocks subside but labour-intensive tourism activity continues to moderate.

Energy and Services Prices Driving Inflation

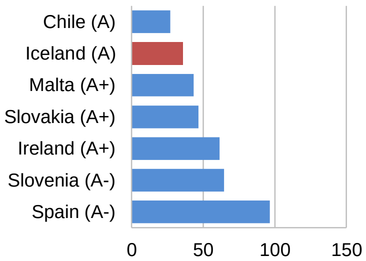
% chg yoy



Source: Fitch Ratings, Eurostat

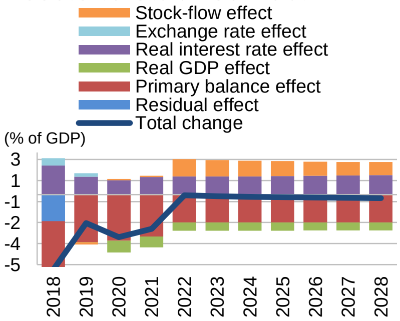
Public Debt Low Relative to 'A' Category Peers

% GDP



Source: Fitch Ratings

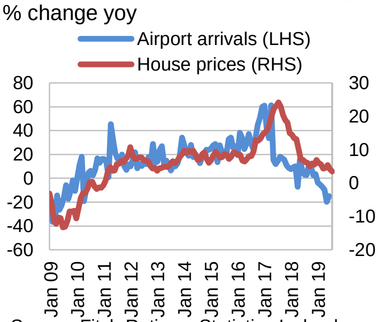
Build-up of Government Assets to Stabilise Debt



Source: Fitch Ratings debt dynamics model

House Price Growth Has Tracked Tourism with a Lag

% change yoy



Source: Fitch Ratings, Statistics Iceland

Monetary Policy Rate to Fall As Inflation Softens

HICP inflation picked up to 2.2% yoy in June 2019, driven by slightly weaker krona, higher energy prices and air travel fares. Fitch forecasts inflation to ease for the rest of the year, averaging 1.5% for 2019 as energy inflation fades and as demand in the economy softens, but to continue being supported by a weak krona. With a softening inflation and growth outlook, The Central Bank of Iceland (CBI) lowered rates by 75bp in June-July 2019, and Fitch expects that it could lower rates slightly further in 2H19.

Offshore Krona Assets Restrictions Lifted, Krona Rate Stable

The capital controls imposed during the Icelandic banking crisis were further liberalised in April 2019, with only restrictions on foreign-currency investments in derivative instruments not for hedging remaining. In March 2019, 3.2% of GDP in legacy offshore krona assets that were restricted from being converted into foreign currency assets at market rates have also been liberalised.

In March 2019 the CBI lowered its capital flow management tool, the special reserve requirement (SRR) ratio, which stipulates the percentage of nominal investments in fixed-income instruments required to be held in a non-interest bearing account at the central bank, to 0% from 20% in March 2019. The liberalisation measures and the central bank's interventions in the FX market supported the krona at a time when negative news in the tourism sector could have led to further capital outflows. This dampened the impact of WowAir's collapse at end-March on the krona, which fell by just 1.8% between end-February and end-April.

Fitch Expects Fiscal Surplus Narrowing to Counter Growth Shock

Fitch forecasts the general government surplus to narrow to 0.6% of GDP in 2019 from 1.1% in 2018, before improving slightly to 0.8% in 2020. This includes our expectation that automatic stabilisers would be allowed to respond to the short-term economic shock and following the collapse of WowAir and the failure of the capelin fishing catch in 1Q19.

In June 2019 the government published a revised fiscal policy statement revising the target central government balance for 2019 from 1% of GDP to -0.4% of GDP for 2019-2020, improving to -0.3% in 2021 and 0.0% in 2022. These revisions were made to offset the poorer growth outlook and are consistent with the fiscal rules without need for a temporary suspension permissible within the Public Finance Act.

Banks Resilient to WowAir But Face Higher Real Estate Risks

We expect the direct impact of WowAir's collapse on Icelandic banks to be muted, with an estimated ISK1.2 billion in write-offs accruing to WowAir (0.03% of 2018 banking system assets) and a moderate 9% of the loan portfolio directly related to the tourism industry. The wider impact could affect the banks if the tourism shock leads to a sharp contraction in the housing market.

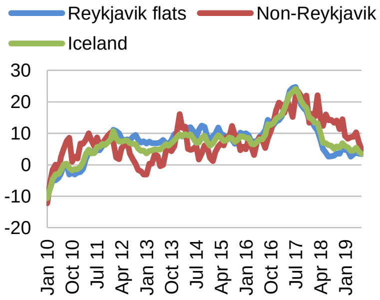
We expect the private rental accommodation sector to be hit by the contraction in tourism in 2019, which could be exacerbated by a simultaneous rise in supply as many hotels and homes are likely to be completed in the coming years.

House price growth across Iceland has been slowing since its peak of 24.2% yoy in July 2017, but remains robust at 3.5% yoy in July 2019. House prices in the capital especially have slowed to 2.4% yoy in July 2019, while the slowdown is lagging in the rest of Iceland, with house prices still growing at 4.9% yoy.

Icelandic banks are highly capitalised, with a combined capital adequacy ratio of 23.2% in 2018, notwithstanding a fall of 1.9pp in 2018 primarily due to dividend payments. This comfortably exceeds the financial supervisor's total required capital base for the domestic systemically important banks of 19.6%-21.3%. Non-performing loans are low at 2.2% at end-2018 (2017: 2.7%), but likely to rise slightly in the coming quarters due to the tourism shock.

House Price Growth Slowing Fast

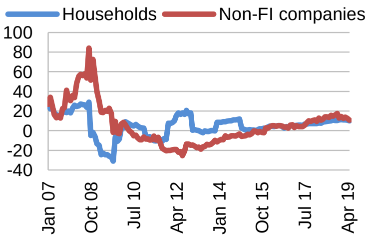
% chg yoy



Source: Fitch Ratings, Statistics Iceland

Households and Corporate Credit Catch up from Deleveraging

% chg yoy



Source: Fitch Ratings, Central Bank of Iceland

Credit growth at domestic commercial banks has not responded to the tourism shock, with both households and commercial credit at commercial banks growing robustly at 10.1% yoy and 10.6% yoy in May 2019. The rapid growth in credit for both households and corporates reflects a recovery after years of deleveraging, especially among households, since Iceland's banking crisis. Borrowing from banks has been falling, while households and corporates have been increasing their borrowings from the pension funds. Household debt is almost entirely denominated in krona, while corporates hold 28% of foreign currency debt (of which 76% is in euros). Banks' policy to restrict corporate FX lending to corporates with matching FX income mitigates foreign currency risk for the corporate credit market.

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.

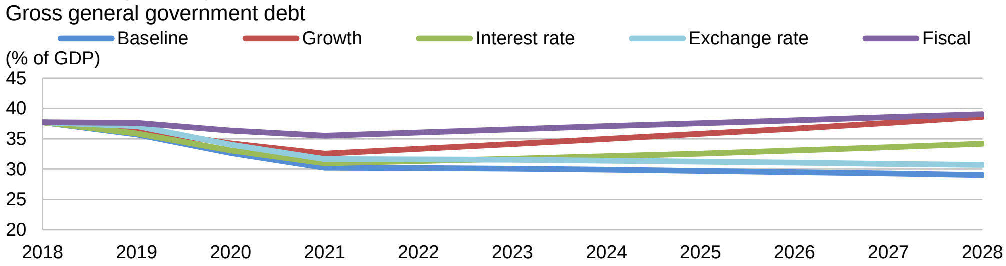
Public Debt Dynamics

Fitch forecasts GGGD to fall further to 35.7% of GDP in 2019 from 37.7% in 2018, and to stabilise at around 30% of GDP by 2021. Falling government debt/GDP will limit the government's ability to further lengthen the average maturity of the debt portfolio to maintain liquidity in the secondary market. Positive general government net lending is likely to be channelled to the sovereign wealth fund, resulting in a stable GGGD/GDP ratio. Average yields on government bonds have fallen to historical lows due to favourable global liquidity conditions and the further liberalisation of capital controls and the SRR.

Debt Dynamics: Fitch's Baseline Assumptions

	2018	2019	2020	2021	2022	2023	2028
Gross general government debt (% GDP)	37.7	35.7	32.7	30.2	30.2	30.1	29.0
Primary balance (% of GDP)	4.2	3.4	3.3	3.0	2.0	2.0	2.0
Real GDP growth (%)	4.6	0.0	2.5	2.5	2.0	2.0	2.0
Avg. nominal effective interest rate (%)	7.7	7.4	7.2	7.1	7.0	7.0	7.5
Local currency/USD (annual avg.)	108.3	116.3	122.7	122.7	122.7	122.7	122.7
GDP deflator (%)	2.4	3.9	4.1	3.0	2.5	2.5	2.5

Sensitivity Analysis
Gross general government debt



Source: Fitch Ratings debt dynamics model

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 2.1% lower (half standard deviation lower)
Interest rate	marginal interest rate 250bp higher
Fiscal	primary balance stable at 1.5%
Exchange rate	30% depreciation at end-2019

Forecast Summary

	2015	2016	2017	2018	2019f	2020f	2021f
Macroeconomic indicators and policy							
Real GDP growth (%)	4.7	6.6	4.6	4.6	0.0	2.5	2.0
Unemployment (%)	4.0	3.0	2.8	3.0	3.3	3.5	3.6
Consumer prices (annual average % change)	0.3	0.8	-1.6	0.7	1.5	2.0	3.0
Short-term interest rate (bank policy annual avg.) (%)	4.8	5.5	4.3	4.0	3.8	4.2	4.5
General government balance (% of GDP)	-0.8	12.4	0.5	1.1	0.6	0.8	1.0
General government debt (% of GDP)	65.0	51.2	43.1	37.7	35.7	32.7	29.3
ISK per USD (annual average)	131.92	120.81	106.84	108.30	116.33	122.70	122.70
Real effective exchange rate (2000 = 100)	83.1	93.5	104.7	102.0	101.0	103.0	106.1
Real private sector credit growth (%)	2.2	4.1	10.2	11.9	6.4	4.9	2.9
External finance							
Current account balance (% of GDP)	5.1	7.6	3.7	2.9	2.6	2.5	1.8
Current account balance plus net FDI (% of GDP)	9.2	11.1	4.4	1.1	3.0	2.9	2.1
Net external debt (% of GDP)	39.6	31.9	30.9	20.6	15.6	10.2	5.2
Net external debt (% of CXR)	68.9	59.5	61.5	40.7	29.8	18.6	9.7
Official international reserves including gold (USDmn)	5,040.7	7,226.4	6,566.6	6,321.2	6,351.1	6,369.3	6,239.8
Official international reserves (months of CXP cover)	6.6	9.1	6.9	6.1	6.1	5.8	5.3
External interest service (% of CXR)	9.3	5.7	4.7	3.8	3.4	3.1	2.8
Gross external financing requirement (% int. reserves)	509.9	-26.6	-17.4	-187.6	-108.5	-158.5	-38.0
Real GDP growth (%)							
US	2.9	1.6	2.2	2.9	2.3	1.8	1.7
China	6.9	6.7	6.9	6.6	6.2	6.0	5.8
Eurozone	2.1	2.0	2.4	1.9	1.2	1.3	1.2
World	2.8	2.6	3.3	3.2	2.8	2.7	2.7
Oil (USD/barrel)	52.4	45.1	54.9	71.6	65.0	62.5	60.0

Source: Fitch Ratings

Fiscal Accounts Summary

(% of GDP)	2016	2017	2018	2019f	2020f	2021f
General government						
Revenue	**56.9**	**43.8**	**42.8**	**42.5**	**42.3**	**41.2**
Expenditure	**44.5**	**43.3**	**41.7**	**41.9**	**41.5**	**40.2**
O/w interest payments	3.9	3.9	3.1	2.8	2.5	2.5
Primary balance	16.4	4.4	4.2	3.4	3.3	3.5
Overall balance	**12.4**	**0.5**	**1.1**	**0.6**	**0.8**	**1.0**
General government debt	**51.2**	**43.1**	**37.7**	**35.7**	**32.7**	**29.3**
% of general government revenue	90.0	98.3	88.2	84.1	77.2	71.2
Central government deposits	11.5	7.2	8.0	7.7	7.2	6.7
Net general government debt	39.8	35.9	29.7	28.0	25.5	22.6
Central government						
Revenue	**46.1**	**32.5**	**31.5**	**-**	**-**	**-**
O/w grants	0.5	0.4	0.5	-	-	-
Expenditure and net lending	**34.0**	**30.8**	**30.2**	**-**	**-**	**-**
O/w current expenditure and transfers	32.3	28.7	27.9	-	-	-
- Interest	3.5	3.4	2.7	-	-	-
O/w capital expenditure	1.7	2.1	2.3	-	-	-
Current balance	13.8	3.8	3.6	-	-	-
Primary balance	15.6	5.2	4.0	-	-	-
Overall balance	**12.1**	**1.7**	**1.3**	**-**	**-**	**-**
Central government debt	45.1	34.8	29.9	28.3	25.9	23.2
% of central government revenues	97.7	107.1	94.8	-	-	-
Central government debt (ISKm)	**1,122,878.0**	**911,053.0**	**837,231.0**	**823,401.5**	**803,723.0**	**777,227.2**
By residency of holder						
Domestic	971632.0	690911.0	-	-	-	-
Foreign	151246.0	220142.0	-	-	-	-
By currency denomination						
Local currency	920,193.0	794,526.0	712,615.0	698,785.5	679,107.0	652,611.2
Foreign currency	202,685.0	116,527.0	124,616.0	124,616.0	124,616.0	124,616.0
In USD equivalent (eop exchange rate)	1,796.5	1,115.9	1,071.2	1,015.6	1,015.6	1,015.6
Average maturity (years)	6.4	6.3	6.3	-	-	-
Memo						
Nominal GDP (ISKm)	2,490,936.0	2,616,826.0	2,803,050.0	2,912,285.0	3,108,005.8	33,47,772.2

Source: Ministry of Finance and Fitch Ratings estimates and forecasts

External Debt and Assets

(USDm)	2014	2015	2016	2017	2018	2019f
Gross external debt	**979,68.9**	**30,441.7**	**25,832.6**	**22,201.1**	**19,963.2**	**18,963.2**
% of GDP	551.7	175.1	125.3	90.6	77.1	75.7
% of CXR	961.1	304.4	233.7	180.8	152.4	144.8
By maturity						
Medium- and long-term	70,988.0	19,005.9	2,167.4	20,647.4	18,541.1	17,612.3
Short -term	26,981.0	11,435.8	1,665.2	1,553.6	1,422.1	1,350.9
% of total debt	27.5	37.6	6.4	7.0	7.1	7.1
By debtor						
Sovereign	**5,275.4**	**4,496.7**	**3,881.6**	**2,760.6**	**2,573.5**	**2,573.5**
Monetary authorities	697.8	287.2	384.3	386.1	391.0	391.0
General government	4,577.6	4,209.5	3,497.3	2,374.4	2,182.5	2,182.5
O/w central government	2,443.7	1,724.7	1,340.6	2,108.2	-	-
Banks	**1,179.8**	**2,172.3**	**4,209.7**	**5,753.2**	**6,195.1**	**6,195.1**
Other sectors	**91,513.7**	**23,772.7**	**17,741.3**	**13,687.3**	**11,194.6**	**10,194.6**
Gross external assets (non-equity)	**27,220.6**	**23,547.8**	**19,257.6**	**14,642.6**	**14,627.9**	**15,057.1**
International reserves, incl. gold	4,175.8	5,040.7	7,226.4	6,566.6	6,321.2	6,351.1
Other sovereign assets nes	0.0	0.0	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	3,160.9	2,795.3	2,345.6	3,144.0	3,580.9	3,580.9
Other sector foreign assets	19,953.4	15,847.3	9,827.6	5,097.3	4,806.2	5,037.8
Net external debt	**70,748.3**	**6,893.9**	**6,575.0**	**7,558.4**	**5,335.3**	**3,906.1**
% of GDP	398.4	39.6	31.9	30.9	20.6	15.6
Net sovereign external debt	1,098.4	-540.9	-3,348.8	-3,814.5	-3,755.9	-3,785.1
Net bank external debt	-1,910.4	-490.6	2,010.1	2,783.1	2,702.8	2,534.4
Net other external debt	71,560.4	7,925.4	7,913.7	8,589.9	6,388.5	5,156.8
Net international investment position	**-61,342.0**	**-825.0**	**631.8**	**885.6**	**2,374.1**	**0.0**
% of GDP	-345.4	-4.7	3.1	3.6	9.2	0.0
Sovereign net foreign assets	**-1,097.0**	**542.3**	**3,350.4**	**3,816.3**	**3,757.5**	**3,786.7**
% of GDP	-6.2	3.1	16.2	15.6	14.5	15.1
Debt service (principal & interest)	**40,716.1**	**25,868.9**	**1,425.4**	**1,589.0**	**2,619.6**	**2,112.7**
Debt service (% of CXR)	399.4	258.7	12.9	12.9	20.0	16.1
Interest (% of CXR)	14.0	9.3	5.7	4.7	3.8	3.4
Liquidity ratio (%)	11.6	14.2	56.8	258.2	-126.2	-392.4
Net sovereign FX debt (% of GDP)	-5.1	-15.4	-26.3	-22.3	-20.3	-21.3
Memo						
Nominal GDP	17,758.0	17,389.1	20,618.4	24,493.0	25,882.2	25,034.7
Inter-company loans	11,931.0	8,812.7	10,240.5	6,423.1	4,788.4	4,488.4

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

Balance of Payments

(USDm)	2016	2017	2018	2019f	2020f	2021f
Current account balance	**1,560.6**	**905.9**	**759.6**	**643.7**	**632.6**	**485.0**
% of GDP	7.6	3.7	2.9	2.6	2.5	1.8
% of CXR	14.1	7.4	5.8	4.9	4.6	3.3
Trade balance	**-841.9**	**-1,540.5**	**-1,470.0**	**-1,541.4**	**-1,677.7**	**-1,885.8**
Exports, fob	4,471.7	4,965.5	5,675.7	5,675.7	6,044.6	6,377.1
Imports, fob	5,313.5	6,506.0	7,145.7	7,217.1	7,722.3	8,262.9
Services, net	**2,129.2**	**2,540.2**	**2,268.9**	**2,224.3**	**2,349.6**	**2,410.0**
Services, credit	5,350.3	6,325.2	6,543.7	6,541.0	6,972.7	7,361.5
Services, debit	3,221.2	3,785.0	4,274.8	4,316.7	4,623.2	4,951.4
Income, net	**376.2**	**93.9**	**165.2**	**165.2**	**165.2**	**165.2**
Income, credit	1,042.4	765.7	635.6	635.6	635.6	635.6
Income, debit	666.1	671.8	470.4	470.4	470.4	470.4
O/w: Interest payments	631.2	578.6	498.5	448.3	425.8	405.6
Current transfers, net	**-103.0**	**-187.7**	**-204.5**	**-204.5**	**-204.5**	**-204.5**
Capital and financial accounts						
Non-debt-creating inflows (net)	1,815.9	1,704.0	1,671.8	785.5	685.5	685.5
O/w equity FDI	567.0	470.1	974.7	400.0	400.0	400.0
O/w portfolio equity	1,260.9	1,247.2	711.6	400.0	300.0	300.0
O/w other flows	-12.0	-13.3	-14.5	-14.5	-14.5	-14.5
Change in reserves	2,389.4	-806.8	48.1	29.2	18.1	-129.5
Gross external financing requirement	-1,343.1	-1,258.3	-12,321.3	-6,860.4	-10,067.6	-2,420.2
Stock of international reserves, incl. gold	7,226.4	6,566.6	6,321.2	6,351.1	6,369.3	6,239.8

Source: IMF and Fitch Ratings estimates and forecasts

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