Iceland

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BBB+
Short-Term IDR	F2

Local Currency

Long-Term IDR	A-
Country Ceiling	BBB+

Outlooks

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

Financial Data

Iceland

(USDbn)	2015e
GDP	15.9
GDP per head (USD 000)	48.1
Population (m)	0.3
International reserves	4.5
Net external debt (% GDP)	439.5
Central government total debt (% GDP)	69.2
CG foreign-currency debt	3.1
CG domestically-issued debt (ISKbn)	1,473.6

Related Research

Iceland (February 2015)

Iceland Capital Controls Removal Positive; Execution Key (June 2015)

Global Economic Outlook (July 2015)

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Key Rating Drivers

Capital Account Liberalisation: The main driver of Fitch Ratings' upgrade of Iceland's Foreign Currency Long-Term IDR to 'BBB+' is the presentation of a detailed strategy for the liberalisation of capital controls. Fitch believes that the plan is credible and will allow for the lifting of capital controls without generating undue balance of payments pressure.

Sources of External Pressures: The liberalisation strategy will address the sources of potential balance-of-payment pressure, which in the Icelandic authorities' view have made controls necessary since 2008/2009. The first source is the mismatch between domestic claims and assets of the banks that collapsed in 2008. The 'overhang' of domestic assets is estimated to be around ISK900bn (around 42% of GDP). The second source is the 'locked in' assets in Icelandic kronur owned by non-residents (around ISK290bn, or 15% of GDP).

Fiscal, External Windfalls: The removal of capital controls should improve the business environment. Moreover, the implementation of the strategy and the related completion of composition agreements with the old bank estates will bring substantial fiscal windfalls and a dramatic improvement in the country's external metrics. Given the uncertainty about the timing and amount of these windfalls, we have not included them in our baseline projections.

Public Debt Declining: Public finances are now less of a risk than in previous reviews. Even without the windfalls discussed above, we forecast the debt ratio will decline to 63.3% by 2017. At the same time, the debt ratio is almost double that of the peer median.

Robust Growth, Inflationary Pressures: Economic growth prospects for this year have improved. Real GDP growth in 1Q15 on an annual basis was 2.9%, with domestic demand driving growth and pushing GDP growth for 2015 to 4.0%. However, recently agreed wage settlements will pressure inflation. The Icelandic central bank has raised interest rates by 50bps, and has signalled further increases. The government has also planned fiscal loosening measures that would strengthen the process of overheating in the economy.

Rating Sensitivities

Balanced Growth: A track record of continued economic growth without excessive macroeconomic imbalances would be positive for the ratings.

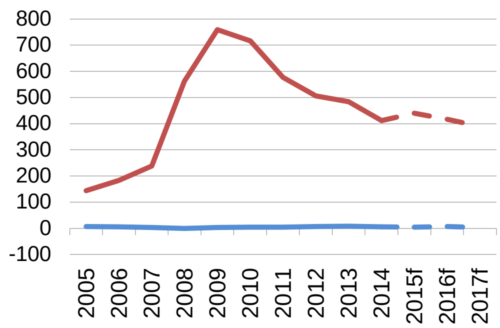
Fiscal, External Metrics Improvement: Continued improvement in public debt dynamics, supported by prudent fiscal policy, and continued improvements in external finances, such as further deleveraging of the balance sheet and sustained current account surpluses, would be positive for the ratings.

Domestic Overheating, Capital Flows: Evidence of excessive overheating in the domestic economy, and excessive capital flows in a post-capital controls world, leading to external imbalances and pressure on the exchange rate, would be negative for the ratings.

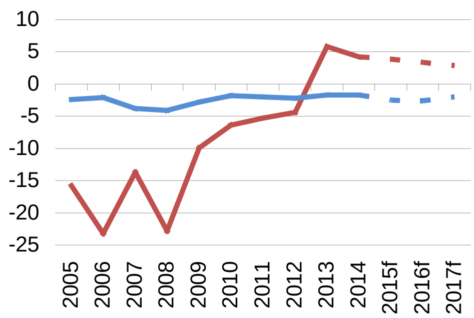
Weakening Consolidation Efforts: A weakened commitment to fiscal consolidation, for example through fiscal loosening via the windfalls from the old bank estates, would be negative for the ratings.

Peer Comparison

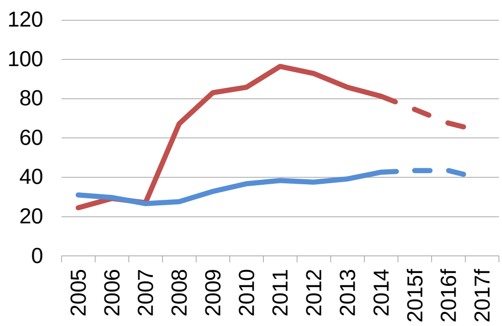
Net External Debt
% of GDP



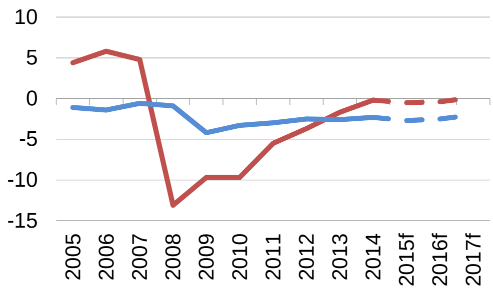
Current Account Balance
% of GDP



General Government Debt
% of GDP

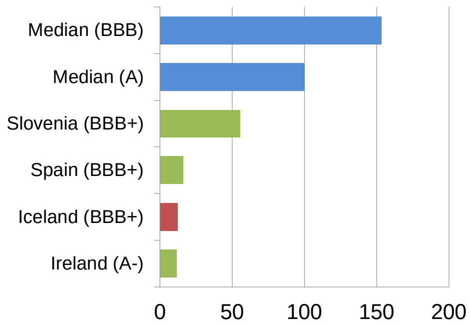


General Government Balance
% of GDP

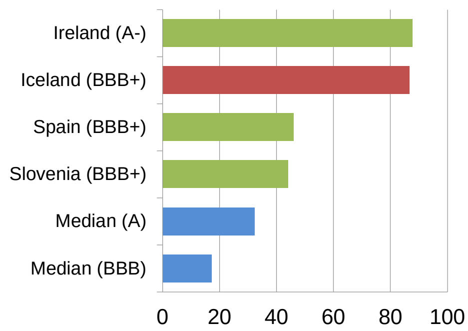


Iceland Medians

International Liquidity Ratio, 2016
%



GDP per capita Income, 2015e
At market exchange rates, USA=100



Related Criteria
Sovereign Rating Criteria (August 2014)
Country Ceilings (August 2014)

Rating Factors

Summary: Strengths and Weaknesses

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

Note: Relative to 'BBB' category
Source: Fitch

Strengths

- Iceland has a very high income per capita compared to rating peers (a 2015 forecast of USD48,000 compared to the 'BBB' median of USD10,200).
- Iceland's scores on indicators of measures of Governance, Human Development and Ease of Doing Business are similar to 'AAA' and 'AA' rated countries.
- The Icelandic economy has responded to the disruption following the financial crisis in 2008/2009. Unemployment is now almost 3% lower than the peer median. Real GDP has recovered to its pre-crisis level.
- The introduction of the Financial Stability Council and the expected implementation of the organic budget law will enhance macro-prudential policy and fiscal policy robustness.

Weaknesses

- Capital controls remain in place, pending the implementation of the government's liberalisation strategy.
- External liabilities are much higher than those of rating peers, pending the resolution of the estates of the failed banks. At end-2014, net external debt was 4x GDP. Composition of the old bank estates would also lead to a dramatic reduction in net external debt and an improvement in the Net International Investment Position (NIIP).
- Public finances are now less of a risk than in previous reviews. Even without counting windfalls related to capital controls liberalisation, we forecast the debt ratio will decline further. At the same time, the government debt-to-GDP ratio at end-2014 was 81.2%, about double the 'BBB' median. State guarantees are sizeable, around 57% of GDP.
- Private sector debt levels remain high, despite a process of deleveraging over the past five years. At end-2014, household and corporate debt stood at 90.5% and 111% of GDP, respectively.

Local Currency Rating

The one-notch difference between the Long-Term Foreign- and Local-Currency IDRs reflects the comparative sophistication and depth of the domestic financial market.

Country Ceiling

The Country Ceiling is aligned with the sovereign's Long-Term Foreign Currency IDR, reflecting the imposition of capital controls since 2008, which ring-fenced sovereign debt service but trapped a substantial amount of non-resident assets in local-currency debt instruments.

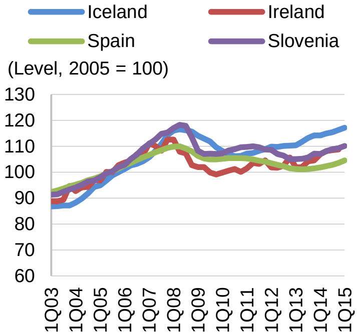
Peer Group

Rating	Country
A-	Ireland
	Latvia
	Lithuania
	Malaysia
	Poland
BBB+	**Iceland**
	Italy
	Kazakhstan
	Mexico
	Peru
	San Marino
	Slovenia
	Spain
	Thailand
BBB	Brazil
	Colombia
	Panama
	South Africa

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
24 Jul 15	BBB+	A-
14 Feb 13	BBB	BBB+
17 Feb 12	BBB-	BBB+
05 Jan 10	BB+	BBB+
08 Oct 08	BBB-	A-
30 Sep 08	A-	AA
15 Mar 07	A+	AA+
03 Feb 00	AA-	AAA

Figure 1
Real GDP



Source: Datastream; Data for Iceland show 4-qtr average of NSA data

Figure 2

Strengths and Weaknesses: Comparative Analysis

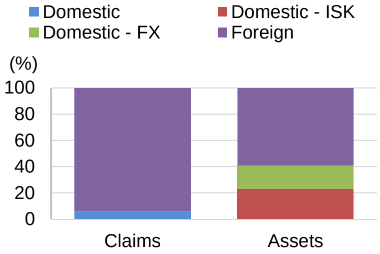
2015e	Iceland BBB+	BBB Median[a]	A Median[a]	Ireland A-	Slovenia BBB+	Spain BBB+
Macroeconomic performance and policies						
Real GDP (5yr average % change)	2.6	3.2	3.1	2.0	0.4	0.0
Volatility of GDP (10yr rolling SD)	4.1	2.6	3.2	3.8	4.3	2.5
Consumer prices (5yr average)	3.3	3.5	1.8	0.8	1.9	1.2
Volatility of CPI (10yr rolling SD)	5.0	1.7	1.7	1.7	1.4	1.8
Unemployment rate (%)	4.1	6.8	6.2	9.8	9.4	22.5
Type of exchange rate regime	Managed float	n.a.	n.a.	EMU	EMU	EMU
Dollarisation ratio (% of bank deposits)	20.0	33.2	16.4	47.4	2.1	3.4
REER volatility (10yr rolling SD)	10.3	4.9	5.1	6.3	2.8	3.7
Structural features						
GDP per capita (USD, mkt exchange rates)	48,105	10,168	19,212	49,679	20,474	25,579
GNI per capita (PPP, USD, latest)	38,870	16,700	24,550	35,984	28,385	31,850
GDP (USDbn)	15.9	n.a.	n.a.	234.7	42.5	1,194.0
Human development index (percentile, latest)	93.5	63.4	80.1	94.6	87.0	86.0
Governance indicator (percentile, latest)[b]	91.3	53.7	75.1	89.0	76.0	73.7
Broad money (% GDP)	47.7	67.5	100.4	104.8	54.7	96.3
Default record (year cured)	-	n.a.	n.a.	-	1996	-
Ease of doing business (percentile, latest)	94.2	71.3	84.4	93.7	73.5	83.0
Trade openness (CXR and CXP % GDP)	65.3	40.6	75.7	132.9	79.8	39.4
Gross domestic savings (% GDP)	23.5	21.6	26.8	41.6	28.4	22.2
Gross domestic investment (% GDP)	18.0	22.3	21.9	15.5	20.6	19.5
Private credit (% GDP)	97.2	62.6	86.4	138.4	58.5	158.2
Bank systemic risk indicators[c]	-/1	n.a.	n.a.	b/1	b/1	bbb/1
Bank system capital ratio (% assets)	28.5	15.1	15.9	15.9	15.1	13.3
Foreign bank ownership (% assets)	38.4	35.0	61.3	61.3	31.6	9.8
Public bank ownership (% assets)	41.8	18.3	15.8	15.8	59.8	18.2
External finances						
Current account balance + net FDI (% GDP)	7.0	0.2	2.7	10.5	5.7	2.2
Current account balance (% GDP)	3.9	-2.3	1.4	5.2	5.4	0.4
Net external debt (% GDP)	439.5	6.9	-19.5	63.3	26.2	79.5
Gross external debt (% CXR)	924.4	140.9	92.7	208.7	139.0	398.2
Gross sovereign external debt (% GXD)	5.3	27.6	29.9	38.1	48.7	37.6
Sovereign net foreign assets (% GDP)	-6.0	0.5	11.3	-110.2	-21.7	-47.6
Ext. interest service ratio (% CXR)	16.0	4.9	2.3	6.3	3.7	11.2
Ext. debt service ratio (% CXR)	302.8	13.2	11.4	24.9	12.0	64.7
Foreign exchange reserves (months of CXP)	5.3	5.5	3.5	0.1	0.5	1.2
Liquidity ratio (latest)[d]	11.1	154.1	100.0	11.8	55.6	16.0
Reserve currency flexibility	0	n.a.	n.a.	1	1	1
Commodity export dependence (% CXR, latest)	45.1	21.2	13.3	6.2	15.0	18.6
Sovereign net foreign currency debt (% GDP)	-8.7	-7.4	-3.9	-0.7	-1.3	-3.7
Public finances[e]						
Budget balance (% GDP)	-0.5	-2.5	-2.3	-2.7	-3.0	-4.5
Primary balance (% GDP)	3.7	-0.4	-0.6	0.9	-0.1	-1.2
Gross debt (% revenue)	171.4	172.0	148.7	330.0	183.5	259.5
Gross debt (% GDP)	74.6	43.2	47.2	107.5	81.9	100.7
Net debt (% GDP)	49.3	34.9	43.0	101.1	71.3	97.7
Foreign currency debt (% total debt)	25.9	33.6	23.0	0.0	0.9	0.2
Interest payments (% revenue)	9.8	8.3	4.9	11.1	6.6	8.4
Revenues and grants (% GDP)	43.5	28.6	34.8	32.6	44.7	38.8
Volatility of revenues/GDP ratio	6.3	5.9	4.2	4.1	3.1	5.2
Central govt. debt maturities (% GDP)	13.2	5.5	4.6	7.6	5.4	15.6

[a] Medians based on three-year centred averages
[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] Bank systemic indicator, which equates to a weighted average Viability Rating; and macro prudential indicator, with 1 'low' systemic risk through to 3 'high'
[d] 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
[e] 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

Figure 3

Domestic/Foreign Breakdown of Assets/Claims on Failed Banks

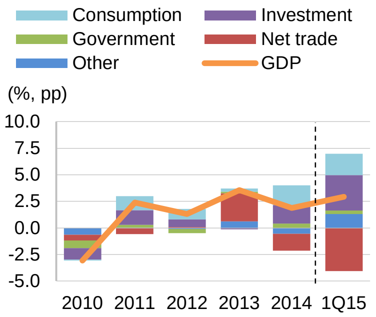
Data at year end-2014



Source: CBI

Figure 4

Contributions to Annual GDP Growth

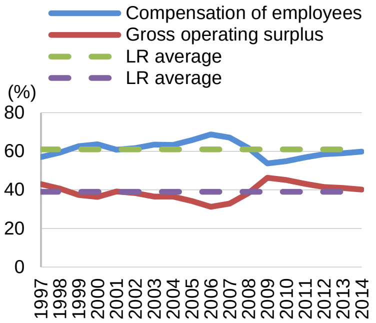


Source: Statistics Iceland

Figure 5

Labour and Profit Share

Percent of gross factor income

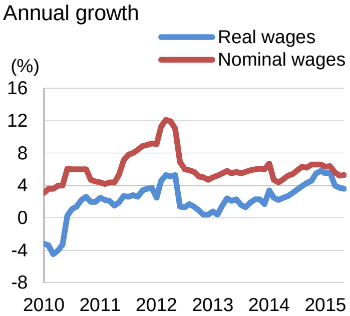


Source: Statistics Iceland

Figure 6

Wage Growth - Nominal and Real

Annual growth



Source: Statistics iceland

Key Credit Developments

Capital Controls Liberalisation Plan Announced

In early June the Ministry of Finance announced a detailed strategy for the liberalisation of capital controls. Over the next few months, the plan will address the sources of potential balance-of-payments pressure. The first source is the mismatch between domestic claims and assets of the failed banks (mainly Glitnir, Kaupthing and Landsbanki). The second is the presence of 'locked-in' ISK assets owned by non-residents.

Almost all of the claims on the failed banks are foreign. Around 40% of the assets of the failed banks' estates are domestic – mainly equity stakes in the Islandsbanki and Arion, the successor banks of Glitnir and Kaupthing. The 'overhang' of domestic assets – which would be transferred to creditors in the absence of capital controls – is estimated to be ISK900bn (around 42% of GDP), of which around ISK500bn is in ISK and the rest in FX.

The Icelandic authorities have presented two possibilities to the failed bank estates for obtaining the authorisations necessary to transfer assets to creditors. The first is to fulfil conditions in composition agreements ('stability conditions') designed to neutralise the adverse balance-of-payments effects of creditor payments. Fulfilling these conditions would involve transfers of domestic assets to the Treasury and the transformation of domestic FX short-term assets into long-term financing. The second possibility – if composition agreements are not met by the end of this year – is the payment of a one-off 'stability tax' amounting to 32%-39% of total assets (on the basis of 2014 data this would be around ISK708-860bn, 36%-43% of GDP). The three largest estates have produced proposals in the last few weeks outlining voluntary contributions.

Later this year the authorities will provide details of currency auctions designed to unwind the 'locked-in' non-resident ISK assets (around 15% of GDP). The Ministry of Finance has indicated that non-resident ISK owners will have to choose among taking part in currency auctions (at a discounted exchange rate), investing in long-term Treasury bonds or locking assets in non-interesting-bearing accounts. The Central Bank of Iceland (CBI) has also announced that pension funds will be authorised to invest up to ISK10bn abroad this year.

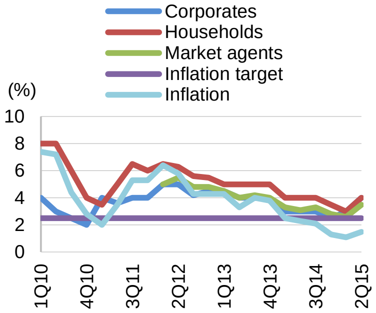
Improved Growth Prospects; Inflationary Risks from High Wage Settlements

Domestic demand replaced net trade as the driver of growth in 2014. Real GDP growth was 1.9%, but domestic demand rose by 4.7%, with investment rising by almost 14% and private consumption growth of 3.7%. With imports rising by 10%, net trade detracted 1.6pp from GDP growth. This pattern of domestic demand driving growth has carried through to 1Q15 estimates. Annual GDP growth was 2.9%, with domestic demand 6.4% higher than in 1Q14.

Fitch expects this pattern of growth to persist over the forecast horizon. Recent surveys of firms' investment intentions point to strong investment growth. Private consumption is being boosted by strong income growth, house price rises and positive wealth effects from the government's debt relief programme.

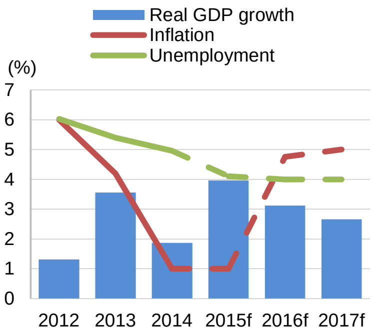
Positive macroeconomic developments have translated to labour market improvements. In 2014, the labour share rose by almost a full percentage point and is now just below its long-run (1997-2014) average. Unemployment in June this year was 3.2% (down from 4.9% a year earlier), while the employment rate rose to 80.5% from 78.3% in June last year. The CBI estimates that the output gap is now positive. For now, these developments have not led to sharp wage or price increases. Annual nominal wage growth has actually decreased to 5.3% in May from 6.6% at end-2014. And as in other European countries, inflationary pressures were very weak in 2014, with consumer price inflation reaching a low of 0.8% in December 2014. Inflation has since picked up and was 1.9% in July.

Figure 7
Inflation and Inflation Expectations (1 Yr Ahead)



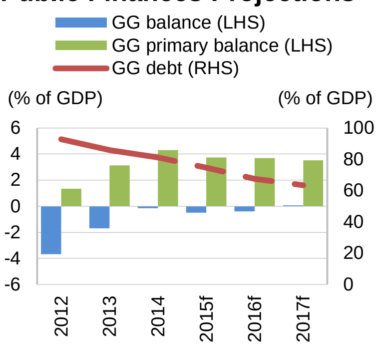
Source: Central Bank of Iceland

Figure 8
Macroeconomic Projections



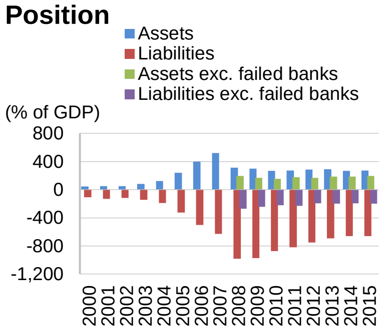
Source: Statistics Iceland, Fitch

Figure 9
Public Finances Projections



Source: Statistics Iceland, Fitch

Figure 10
Net International Investment Position



Source: CBI; 2015 based on 1Q data and 4--qtr average of GDP up to 1Q15

However, wage settlements agreed so far this year will put upward pressure on inflation over the forecast horizon. The settlements so far imply growth in real wages well beyond recent productivity growth. According to the IMF's recent Post-Program Monitoring report, wage settlements amounting to a cumulative 20%-26% will be introduced for the next four years. As the economy has a closed or positive output gap and low unemployment rate, there is a real risk of overheating in the domestic economy.

While inflation is still low (1.5% in June; zero on the HICP measure), measures of inflation expectations – both market-based and surveys – have picked up sharply since the labour market disputes, which eventually led to the high wage settlements.

The CBI has responded to the inflationary pressures by raising its key policy rate in June to 5% from 4.5%, and has signalled that further rate increases will follow over the next few months. The current inflationary pressures present a clear downside risk to the macroeconomic outlook. If inflation expectations rise even further, it will require a stronger monetary policy response from the central bank to bring inflation under control – and this will hinder growth. Additionally, the gap between inflation (and labour costs) in Iceland and its main trading partners will rise, leading to an appreciation of the real exchange rate, hurting the country's competitiveness. Moreover, the high degree of indexation in the Icelandic economy implies that corporate and household balance sheets will deteriorate, all other things being equal.

We forecast GDP growth to pick up substantially this year, on the back of domestic demand, to 4.0%. We expect a slowdown from next year, as tighter monetary policy works through the economy; however, we still expect GDP growth to be just over 3% in 2016 and 2.7% in 2017. We expect inflation to pick up over the course of this year and rise sharply thereafter, averaging 4.8% in 2016 and 5.0% in 2017. Unemployment should average 4.0% in 2016-2017.

Public Debt Falling; Fiscal and External Windfalls Related to Capital Controls Liberalisation

The general government balance showed a small deficit of -0.2% of GDP in 2014. The general government debt ratio fell to 81.2% in 2014, from 85.9% in 2013.

Fiscal projections for the forecast horizon are unusually uncertain. The government announced in May that it intended to introduce in the next budget fiscal loosening measures to facilitate wage negotiations (the most important is changes to income tax structure that would reduce receipts by ISK11bn over the next two years). A fiscal loosening would further fuel domestic demand, and the Ministry of Finance has indicated that it would take into account effects on economic stability before introducing these measures. We expect the deficit to rise slightly to 0.5% of GDP this year and 0.4% next year, before edging back to balance in 2017.

We expect the general government debt ratio to fall to 74.6% this year and then decline further to 63.3% by 2017. Stock-flow adjustments will contribute around two percentage points to the fall in the debt ratio (the Treasury has paid down the outstanding balance of the Avens bond[1] and a bilateral loan from Poland, and has bought back around a tenth of the outstanding issuance of a USD1bn bond). Fulfilment of the stability conditions (or the stability tax) would generate substantial windfalls for Treasury, and the authorities have stated that these funds would be used to pay down debt. Given the uncertainty on amounts and timing, we have not included these in our baseline projections, but in the Public Debt Dynamics section below we have included an illustrative scenario of the public finance impact of debt pay-downs.

The composition of the old bank estates would also lead to a dramatic reduction in net external debt and an improvement in the NIIP. According to CBI estimates, at end-2014, the NIIP excluding the old bank estates was -5.5% of GDP; the headline NIIP is -392% of GDP.

[1] The Avens bond is a euro-denominated bond issued by the Treasury due to its acquisition of asset-backed securities owned by Avens BV, a subsidiary of the old Landsbanki.

Public Debt Dynamics

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.

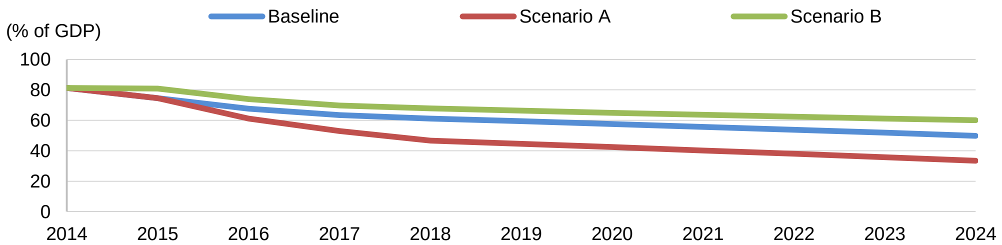
Under Fitch's baseline projections GGGD is expected to fall to 50% by 2024. In Scenario A, public debt falls sharply in 2016-2018, assuming funds from the old bank estates are used to pay down debt; the debt ratio would reach 33.5% in 10 years' time. In an adverse scenario (Scenario B), the decline in the debt ratio is much more moderate, reaching 60% by 2024.

Debt Dynamics: Fitch's Baseline Assumptions

	2014	2015	2016	2017	2018	2019	2024
Gross general government debt (% GDP)	81.2	74.6	67.5	63.3	61.2	59.3	49.9
Primary balance (% of GDP)	4.3	3.7	3.7	3.5	3.0	3.0	3.0
Real GDP growth (%)	1.9	4.0	3.1	2.7	2.5	2.5	2.5
Avg. nominal effective interest rate (%)	5.5	5.6	5.8	6.1	6.3	6.5	6.5
Local currency/USD (annual avg)	116.77	133.5	136.2	138.9	141.7	144.5	159.5
GDP deflator (%)							

Sensitivity Analysis

Gross general government debt



Source: Fitch

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Scenario A	This assumes that the bond issued to the CBI (around 7% of GDP) is paid down in 2016, and that half of the bond issued for recapitalising the banking sector (around 4.7% of GDP) is paid down in 2017, and the other half in 2018
Scenario B	This assumes a one-off 25% depreciation in 2015, lower growth, higher inflation, and a 250 bps in the marginal cost of funding

Forecast Summary

	2011	2012	2013	2014	2015f	2016f	2017f
Macroeconomic indicators and policy							
Real GDP growth (%)	2.4	1.3	3.6	1.9	4.0	3.1	2.7
Unemployment (%)	7.1	6.0	5.4	5.0	4.1	4.0	4.0
Consumer prices (annual average % change)	4.2	6.0	4.2	1.0	1.0	4.8	5.0
Short-term interest rate (bank policy annual avg.)[a] (%)	3.3	4.8	5.0	5.0	5.3	6.5	6.5
General government balance (% of GDP)	-5.5	-3.7	-1.7	-0.2	-0.5	-0.4	0.1
General government debt (% of GDP)	96.5	92.8	85.9	81.2	74.6	67.6	63.4
ISK per USD (annual average)	115.95	125.08	122.18	116.77	133.50	133.50	133.50
Real effective exchange rate (2000 = 100)	76.0	75.8	79.3	84.6	86.3	89.3	92.4
Real private sector credit growth (%)	-13.9	-14.8	-6.8	-3.0	-1.0	-4.5	-4.8
External finance							
Current account balance (% of GDP)	-5.3	-4.4	5.8	4.2	3.9	3.4	2.9
Current account balance plus net FDI (% of GDP)	2.1	25.4	5.5	8.3	7.0	6.3	5.7
Net external debt (% of GDP)	577.3	506.1	483.8	412.0	439.5	416.7	389.7
Net external debt (% of CXR)	873.3	801.0	769.8	694.6	653.6	621.1	582.0
Official international reserves including gold (USDbn)	8.6	4.2	4.2	4.2	4.5	3.9	3.3
Official international reserves (months of CXP cover)	9.8	5.2	5.8	5.3	5.3	4.4	3.5
External interest service (% of CXR)	21.8	24.7	16.1	14.3	16.0	15.2	23.0
Gross external financing requirement (% int. reserves)	447.6	155.7	294.5	1,243.4	721.7	1,362.0	190.8
Real GDP growth (%)							
US	1.6	2.3	2.2	2.4	2.2	2.5	2.5
China	9.3	7.7	7.7	7.4	6.8	6.5	6.0
Eurozone	1.7	-0.8	-0.5	0.9	1.6	1.7	1.6
World	3.3	2.5	2.5	2.6	2.5	2.9	2.8
Oil (USD/barrel)	111.0	112.0	108.8	98.9	65.0	75.0	80.0

[a] Current account rate up to 2014; seven-day term deposit rate thereafter
Source: Fitch

Figure 11

Fiscal Accounts Summary

(% of GDP)	2012	2013	2014	2015f	2016f	2017f
General government						
Revenue	**41.7**	**42.4**	**45.3**	**43.5**	**43.5**	**43.1**
Expenditure	**45.3**	**44.1**	**45.4**	**44.0**	**43.9**	**43.1**
O/w interest payments	5.0	4.8	4.4	4.2	4.1	3.5
Primary balance	1.4	3.1	4.3	3.7	3.7	3.5
Overall balance	**-3.7**	**-1.7**	**-0.2**	**-0.5**	**-0.4**	**0.1**
General government debt	**92.8**	**85.9**	**81.2**	**74.6**	**67.6**	**63.4**
% of general government revenue	222.5	202.7	179.4	171.4	155.4	146.9
General government deposits	28.6	22.8	30.0	25.3	26.6	24.9
Net general government debt	64.1	63.1	51.2	49.3	41.0	38.5
Central government						
Revenue	**30.7**	**31.1**	**33.2**	**31.9**	**31.9**	**31.7**
O/w grants	0.6	0.6	0.5	0.5	0.4	0.4
Expenditure and net lending	**33.9**	**32.9**	**33.9**	**32.8**	**32.7**	**32.1**
O/w current expenditure and transfers	30.2	29.6	30.5	29.5	29.4	28.9
- Interest	4.4	4.4	3.8	3.7	3.5	3.3
O/w capital expenditure	3.7	3.3	0.0	0.0	0.0	0.0
Current balance	0.5	1.6	0.0	0.0	0.0	0.0
Primary balance	1.2	2.6	3.2	2.8	2.7	2.8
Overall balance	**-3.3**	**-1.8**	**-0.6**	**-0.9**	**-0.8**	**-0.5**
Central government debt	84.5	77.2	74.6	69.2	62.8	58.9
% of central government revenues	275.6	248.1	224.4	216.8	196.6	185.9
Central government debt (ISKbn)	**1,505.0**	**1,451.6**	**1,487.2**	**1,473.6**	**1,422.2**	**1,421.8**
By residency of holder						
Domestic	1,292.4	1,274.5	1,177.1	1,166.4	1,125.7	1,125.3
Foreign	212.6	177.1	310.1	307.3	296.5	296.5
By currency denomination						
Local currency	1,070.0	1,061.9	1,071.8	1,062.0	1,091.7	1,091.4
Foreign currency	435.0	389.7	415.4	411.6	330.5	330.4
In USD equivalent (eop exchange rate)	3.4	3.4	3.3	3.1	2.5	2.5
Average maturity (years)	6.4	6.3	7.3	7.0	7.0	7.0
Memo						
Nominal GDP (ISKbn)	1,780.2	1,880.9	1,993.3	2,128.6	2,266.0	2,415.6

Source: Statistics Iceland, IMF and Fitch estimates and forecasts

Figure 12
External Debt and Assets

(USDbn)	2010	2011	2012	2013	2014	2015f
Gross external debt	**121.0**	**111.4**	**102.6**	**107.6**	**97.9**	**99.1**
% of GDP	912.2	758.2	720.6	698.7	573.3	621.6
% of CXR	1,562.2	1,147.0	1,140.6	1,111.7	966.6	924.4
By maturity						
Medium- and long-term	81.8	74.5	70.3	76.5	65.7	66.5
Short -term	39.2	36.9	32.3	31.0	32.2	32.6
% of total debt	32.4	33.1	31.5	28.9	32.9	32.9
By debtor						
Sovereign	**7.3**	**8.6**	**6.4**	**6.3**	**5.3**	**5.2**
Monetary authorities	2.4	3.2	1.5	1.5	0.7	1.1
General government	4.9	5.4	4.9	4.8	4.6	4.1
O/w central government	1.6	1.5	1.6	1.5	2.4	2.3
Banks	**1.8**	**1.3**	**0.9**	**1.3**	**1.2**	**1.1**
Other sectors	**111.9**	**101.5**	**95.2**	**100.0**	**91.4**	**92.8**
Gross external assets (non-equity)	**26.0**	**26.6**	**30.5**	**33.1**	**27.5**	**29.0**
International reserves, incl. gold	5.8	8.6	4.2	4.2	4.2	4.5
Other sovereign assets nes	0.0	0.0	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	3.3	3.6	3.6	4.8	3.2	3.3
Other sector foreign assets	17.8	15.1	23.5	24.7	20.3	21.5
Net external debt	**95.0**	**84.8**	**72.0**	**74.5**	**70.3**	**70.1**
% of GDP	716.2	577.3	506.1	483.8	412.0	439.5
Net sovereign external debt	1.5	0.1	2.2	2.1	1.1	1.0
Net bank external debt	-0.6	-1.7	-2.0	-2.9	-1.9	-2.2
Net other external debt	94.1	86.3	71.7	75.3	71.1	71.3
Net international investment position	**-85.2**	**-75.6**	**-64.0**	**-65.7**	**-61.7**	**-60.8**
% of GDP	-642.7	-514.4	-449.7	-426.9	-361.7	-381.4
Sovereign net foreign assets	**-1.5**	**-0.1**	**-2.2**	**-2.1**	**-1.1**	**-1.0**
% of GDP	-11.6	-0.7	-15.7	-13.5	-6.4	-6.0
Debt service (principal & interest)	**21.2**	**27.2**	**14.9**	**14.8**	**54.9**	**32.5**
Debt service (% of CXR)	274.2	280.6	165.8	152.9	541.9	302.8
Interest (% of CXR)	23.3	21.8	24.7	16.1	14.3	16.0
Liquidity ratio (%)	10.6	13.4	22.8	16.0	10.3	11.1
Net sovereign FX debt (% of GDP)	-21.3	-33.3	-5.8	-5.6	-5.3	-8.7
Memo						
Nominal GDP	13.3	14.7	14.2	15.4	17.1	15.9
Inter-company loans	11.7	12.2	11.1	12.0	11.9	12.6

Source: CBI, IMF, and Fitch estimates and forecasts

Figure 13

Balance of Payments

(USDbn)	2012	2013	2014	2015f	2016f	2017f
Current account balance	**-0.6**	**0.9**	**0.7**	**0.6**	**0.6**	**0.5**
% of GDP	-4.4	5.8	4.2	3.9	3.4	2.9
% of CXR	-6.9	9.2	7.1	5.7	5.0	4.4
Trade balance	**0.1**	**0.1**	**-0.1**	**0.0**	**-0.1**	**-0.1**
Exports, fob	4.6	4.6	4.9	5.3	5.7	6.2
Imports, fob	4.5	4.5	4.9	5.3	5.8	6.3
Services, net	**0.8**	**1.2**	**1.2**	**1.1**	**1.1**	**1.1**
Services, credit	3.5	4.0	4.3	4.5	4.8	5.0
Services, debit	2.7	2.8	3.1	3.4	3.6	3.9
Income, net	**-1.4**	**-0.2**	**-0.2**	**-0.3**	**-0.3**	**-0.3**
Income, credit	0.8	1.0	0.9	0.8	0.8	0.8
Income, debit	2.2	1.3	1.1	1.1	1.1	1.1
O/w: Interest payments	2.2	1.6	1.5	1.7	1.7	2.8
Current transfers, net	**-0.1**	**-0.1**	**-0.2**	**-0.2**	**-0.2**	**-0.2**
Capital and financial accounts						
Non-debt-creating inflows (net)	5.5	-0.6	-0.3	-0.3	-0.3	-0.3
O/w equity FDI	5.6	-0.6	-0.2	-0.2	-0.2	-0.2
O/w portfolio equity	-0.1	0.0	-0.1	-0.1	-0.1	-0.1
O/w other flows	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves	-4.3	0.0	0.3	0.1	0.0	-0.1
Gross external financing requirement	13.3	12.3	52.7	30.1	60.8	7.5
Stock of international reserves, incl. gold	4.2	4.2	4.2	4.5	3.9	3.3

Source: CBI, IMF and Fitch estimates and forecasts

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