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)	2015
GDP	16.2
GDP per head (USD 000)	48.8
Population (m)	0.3
International reserves	5.1
Net external debt (% GDP)	49.4
Central government total debt (% GDP)	62.9
CG foreign-currency debt	2.4
CG domestically issued debt (ISKbn)	1,028.9

Key Rating Drivers

Stable Outlook: Iceland's ratings are underpinned by a very high level of income per capita compared with 'BBB' rating peers, and indicators of human development and governance more akin to the highest-rated sovereigns.

Composition Agreements, Stability Contributions: Capital controls remain but the liberalisation process will bring about a sizeable, one-off improvement in the fiscal balance. The estates of the failed banks will deliver stability contributions to the Icelandic state, having completed composition agreements in Icelandic courts.

Most accrue this year, improving the government balance. Overall in connection with the settlement, the estates will provide the authorities around ISK490bn (21.5% of GDP) in stability contributions, tax payments and recoveries by the central bank's asset management company.

Improving Debt Dynamics: Fitch Ratings estimates that the general government debt/GDP ratio fell to 69.2% in 2015, from 81.4% in 2014. Stock-flow adjustments account for two-thirds of the decline in debt. Over 2015, the Icelandic Treasury paid down a number of debts, including at year-end ISK50bn of the outstanding balance of the bond issued to the Central Bank of Iceland (CBI). We expect the debt ratio to fall to 57.4% this year, and 53.0% in 2017.

Domestic Demand Driving Growth: Over the first three quarters of 2015, the Icelandic economy expanded by 4.5%. Domestic demand remained the main driver of growth, with private consumption and investment growing at annual rates of 4.4% and almost 16%, respectively. We expect this pattern of growth to continue over the forecast horizon. We forecast a slowdown in GDP growth to 3.4% in 2016 and 2.9% in 2017, as monetary policy is tightened further to address inflationary pressures.

Monetary Tightening, Inflation to Rise: As a very small, open economy, Iceland is more susceptible to growth and inflation volatility. The central bank has already raised interest rates by 0.75pp since July and has signalled that further policy tightening will be needed. Inflation was low in 2015 thanks to import and petrol prices. However, generous wage settlements, low unemployment and a positive output gap will put upward pressure on inflation. We expect HICP inflation to rise to 2.8% this year and 3.5% in 2017.

FX Reserves Build-Up: Upward pressure on the exchange rate, deriving partly from increased capital flows, was somewhat offset by acquisitions of foreign exchange. The central bank conducted FX purchases for ISK272bn (around 12.8% of GDP) over 2015. At end-2015, FX reserves were ISK653bn, or around 30% of GDP. The authorities' strong FX position has been utilised to pay down the remaining obligations to the IMF from the Stand-By Arrangement following the financial crisis in 2008 (about USD334m, or ISK44bn).

Rating Sensitivities

Growth, Fiscal and Externals: A track record of continued economic growth without excessive macroeconomic imbalances, continued improvements in debt dynamics, supported by prudent fiscal policy, and improvements in external balances would be positive for the ratings.

Domestic Overheating, Capital Flows: Excessive overheating in the domestic economy, for example through wage-price spirals, excessive capital flows after the lifting of capital controls, and a weakened commitment to fiscal consolidation, would be negative for the ratings.

Related Research

Iceland (July 2015)

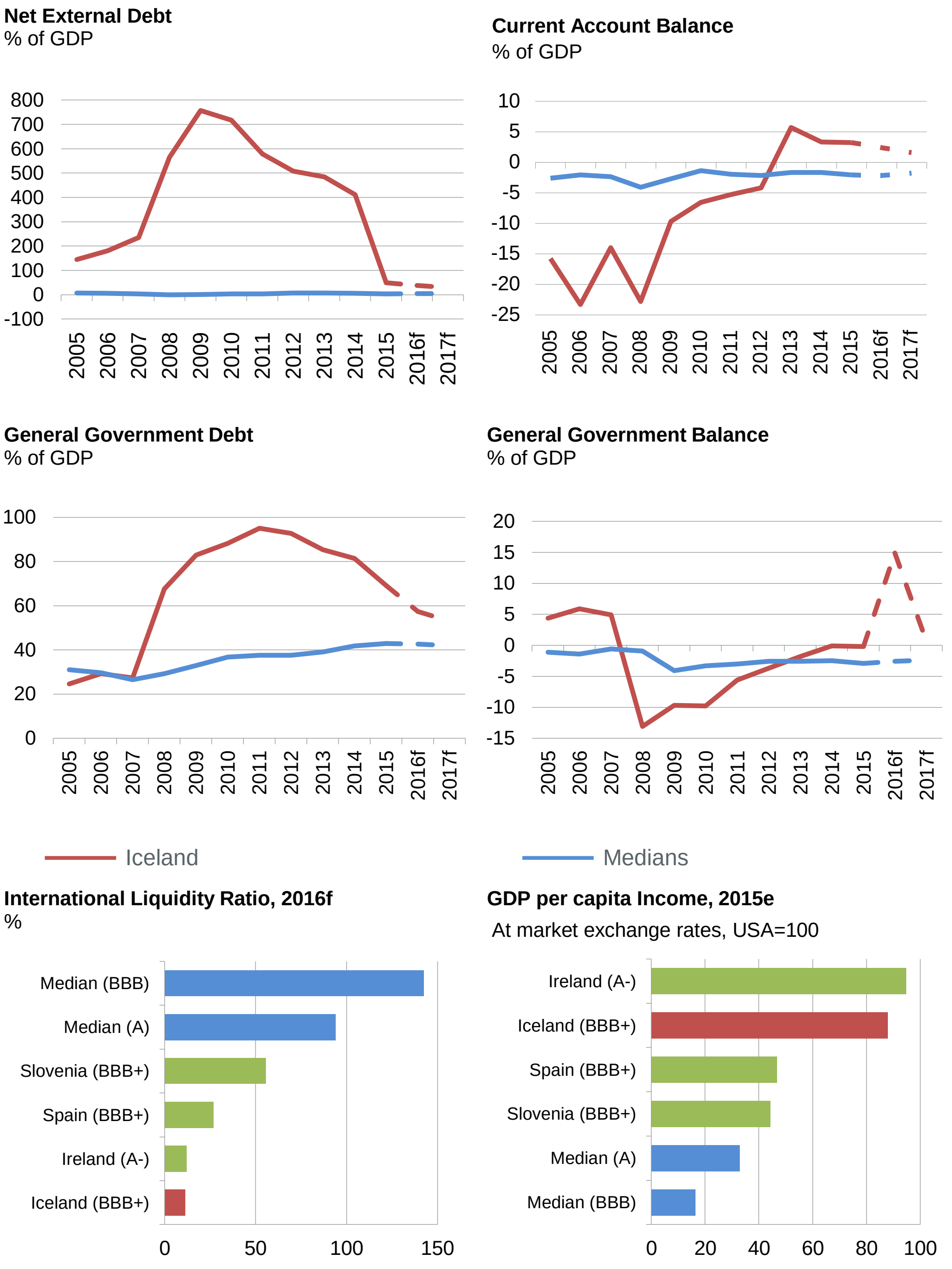
2016 Outlook: Western Europe Sovereigns (December 2015)

Analysts

Alex Muscatelli
+44 20 3530 1695
alex.muscatelli@fitchratings.com

Arnaud Louis
+33 1 44 29 91 42
arnaud.louis@fitchratings.com

Peer Comparison



Related Criteria

Sovereign Rating Criteria (August 2014)
Country Ceilings (August 2015)

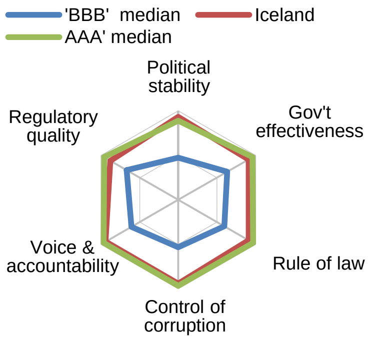
Peer Group

Rating	Country
A−	Ireland
	Latvia
	Lithuania
	Malaysia
	Poland
BBB+	**Iceland**
	Italy
	Kazakhstan
	Mexico
	Peru
	San Marino
	Slovenia
	Spain
	Thailand
BBB	Andorra
	Colombia
	Panama

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
Governance Indicators
Percentile rank



Rating Factors

Summary: Strengths and Weaknesses

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

Note: Relative to 'BBB' category
Source: Fitch

Strengths

- Iceland has very high income per capita compared to rating peers (a 2015 estimate of USD48,800 compared to the 'BBB' median of USD9,200).
- 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 recovered from the disruption following the financial crisis in 2008/2009. Real GDP is around 5% above its peak in 2008. Unemployment is well below the rating peer median.

Weaknesses

- Capital controls remain in place, pending the completion of the government's liberalisation strategy. ISK336bn (around 14.6% of GDP) in non-resident krona assets remain 'locked in' Iceland.
- Public finances are now less of a risk than in previous reviews. The public debt/GDP ratio is estimated to have fallen by 26pp from its peak in 2011. At the same time, the debt/GDP ratio, estimated at 69.2% at end-2015, is more than 25pp above the rating peer median.
- The completion of composition agreements with the old banks implies a dramatic reduction in net external debt and improvement in the Net International Investment Position (NIIP). That said, estimated net external debt at end-2015 (49.4% of GDP) is still substantially higher than the 'BBB' median.
- Private-sector debt remains high, despite a process of deleveraging over the past five years. At end-2Q15, household and corporate sector debt stood at 88% and 102% 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.

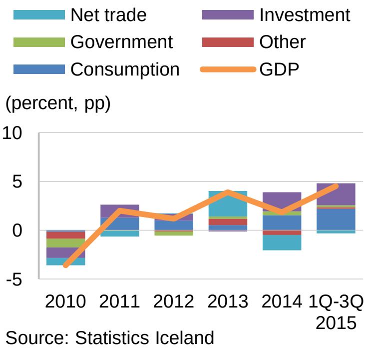
Figure 2

Strengths and Weaknesses: Comparative Analysis

2015	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	3.0	3.0	0.5	0.1
Volatility of GDP (10yr rolling SD)	4.0	2.8	3.3	4.1	4.3	2.6
Consumer prices (5yr average)	3.1	3.3	1.8	0.8	1.9	1.3
Volatility of CPI (10yr rolling SD)	5.1	1.8	1.7	1.7	1.4	1.7
Unemployment rate (%)	4.1	6.8	6.3	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	32.2	14.2	47.4	2.1	3.4
REER volatility (10yr rolling SD)	10.4	4.9	5.1	6.3	2.8	3.6
Structural features						
GDP per capita (USD, mkt. exchange rates)	48,817	9,198	18,143	52,348	20,451	25,986
GNI per capita (PPP, USD, latest)	42,530	17,600	25,540	35,984	29,441	33,767
GDP (USDbn)	16.2	n.a.	n.a.	247.3	42.4	1,213.1
Human development index (percentile, latest)	93.5	63.4	80.1	94.6	87.0	86.0
Governance Indicator (percentile, latest)[b]	91.9	57.1	75.1	89.0	75.9	74.3
Broad money (% GDP)	47.3	67.0	79.1	98.7	54.6	99.3
Default record (year cured)[c]	-	n.a.	n.a.	-	1996	-
Ease of doing business (percentile, latest)	90.5	71.3	85.2	93.7	85.2	83.0
Trade openness (avg. of CXR + CXP % GDP)	65.2	41.1	73.7	126.1	79.7	38.0
Gross domestic savings (% GDP)	24.3	22.9	27.3	43.8	28.7	22.4
Gross domestic investment (% GDP)	18.7	22.1	21.8	14.8	20.5	19.5
Private credit (% GDP)	97.1	62.3	78.5	70.8	52.4	123.1
Bank systemic risk indicators[d]	- / 1	n.a.	n.a.	b / 1	b / 1	bbb / 1
Bank system capital ratio (% assets)	26.6	15.5	16.4	15.9	19.3	13.7
Foreign bank ownership (% assets)	38.4	36.7	60.0	61.3	35.0	9.8
Public bank ownership (% assets)	41.8	24.4	15.8	15.8	60.0	18.2
External finances						
Current account balance + net FDI (% GDP)	5.8	0.3	2.7	10.0	8.0	3.2
Current account balance (% GDP)	3.2	-2.1	2.0	5.0	5.4	1.4
Net external debt (% GDP)	49.4	3.8	-20.2	60.1	36.1	86.8
Gross external debt (% CXR)	228.2	140.1	93.2	208.7	141.1	412.4
Gross sovereign external debt (% GXD)	19.0	33.0	28.9	38.1	52.8	34.1
Sovereign net foreign assets (% GDP)	1.6	-0.2	9.0	-104.5	-32.1	-42.5
Ext. interest service ratio (% CXR)	12.3	4.6	2.1	6.3	3.7	4.7
Ext. debt service ratio (% CXR)	282.0	13.5	10.6	24.9	12.1	64.7
Foreign exchange reserves (months of CXP)	6.0	5.6	3.6	0.1	0.4	1.3
Liquidity ratio (latest)[e]	11.2	158.1	98.9	11.8	55.6	26.6
Share of currency in global reserves (%)	0	n.a.	n.a.	21	21	21
Commodity export dependence (% CXR, latest)	41.5	20.7	12.9	6.2	15.0	19.6
Sovereign net foreign currency debt (% GDP)	-16.7	-6.0	-6.1	-0.7	12.7	-3.9
Public finances[f]						
Budget balance (% GDP)	-0.2	-2.7	-2.6	-2.6	-3.0	-4.3
Primary balance (% GDP)	4.3	-0.6	-0.5	0.9	0.1	-1.2
Gross debt (% revenue)	160.5	171.6	147.2	330.0	179.8	255.4
Gross debt (% GDP)	69.2	42.7	44.5	102.1	81.2	99.1
Net debt (% GDP)	49.8	32.7	43.0	96.0	65.2	96.1
Foreign currency debt (% total debt)	21.4	36.8	15.0	0.0	18.2	0.2
Interest payments (% revenue)	10.4	8.1	4.9	11.1	6.9	8.0
Revenues and grants (% GDP)	43.1	28.8	34.7	30.9	45.2	38.8
Volatility of revenues/GDP ratio	6.5	5.8	4.3	5.4	3.2	5.2
Central govt. debt maturities (% GDP)	13.2	5.4	5.5	7.2	6.1	15.5

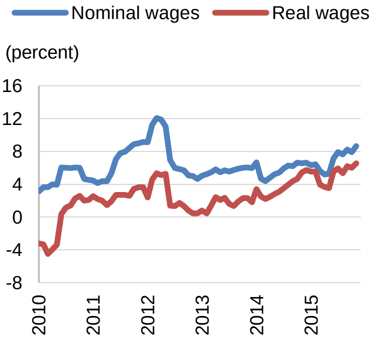
[a] Medians based on three-year centred averages
[b] Composite of six World Bank Governance Indicators used in the Sovereign Rating Model; Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence
[c] Insert modern (ie since 1980) rescheduling history; eg Paris Club and London Club agreements in 1991 and 1994; 50% NPV reduction
[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

Figure 3
Contributions to Annual GDP Growth



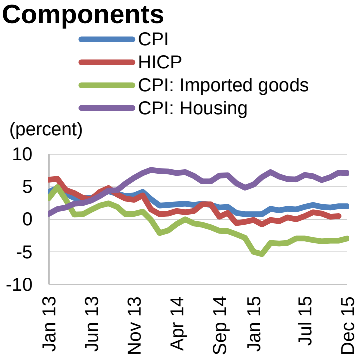
Source: Statistics Iceland

Figure 4
Annual Growth in Wages



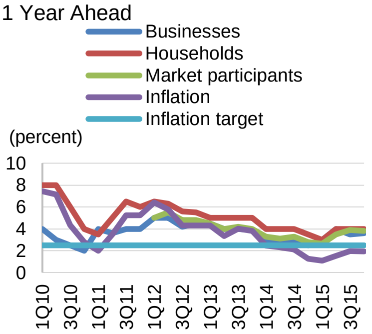
Source: Statistics Iceland

Figure 5
Inflation - Headline and Components



Source: Statistics Iceland

Figure 6
Inflation and Inflation Expectations
1 Year Ahead



Source: Central Bank of Iceland

Key Credit Developments

Public Debt Reductions Accompanied by Fiscal Loosening

Fitch estimates that the general government deficit was 0.2% of GDP in 2015, little changed from 2014. The marginal change in the deficit is the result of both the revenue/GDP and expenditure/GDP ratios falling back in 2015.

The 2016 budget included a series of expansionary fiscal measures. On the revenue side, net tax reductions of around ISK14.5bn (around 0.6% of GDP) over two years have been introduced. The main discretionary tax changes are a cut and reduction in income tax bands, and a cut in import duties. On the expenditure side, extra spending of around ISK21bn (0.9% of GDP) for 2016 is included in the budget. The government is committed to maintaining public investment at its current level of around 1.3% of GDP. Also, there is a degree of uncertainty over the impact of wage increases on government spending.

The process leading to capital controls liberalisation will bring about a huge one-off improvement in fiscal balances in 2016. The estates of the failed banks (Glitnir, Kaupthing, Landsbanki and a number of smaller institutions) will deliver stability contributions to the Icelandic state. Most of these will accrue this year, and will improve the government balance by around ISK338bn (around 14.8% of GDP). This implies that we forecast the government balance to be in surplus by almost 15% of GDP this year. We then expect the surplus to re-adjust to 0.6% of GDP in 2017. Excluding the one-off effect described above, we expect both the revenue and the expenditure ratios to fall back over the forecast horizon. Despite the broadly unchanged fiscal balances (on an underlying basis), the fact that the economy is operating well above capacity implies that there is a degree of fiscal policy loosening planned over the forecast horizon.

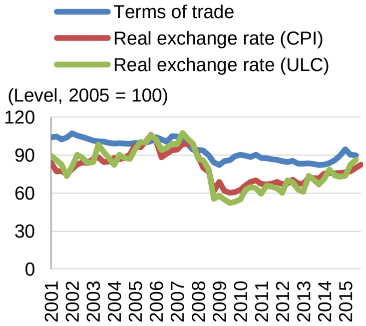
We estimate that the government debt/GDP ratio fell to 69.2% in 2015, from 81.4% in 2014. The primary surplus and the growth-interest differential only account for around one-third of the decline in the debt ratio. Stock-flow adjustments account for two-thirds of the debt decline (7pp). Over the course of last year, the Treasury paid down outstanding balances on a number of debts (the outstanding balance of the Avens bond, a bilateral loan from Poland, and a buyback for around a tenth of outstanding issuance of a USD1bn bond). At year-end, the Treasury paid down ISK50bn (just over 2% of GDP) of the outstanding balance of the bond issued to the central bank (ISK90bn). Legislation introduced on the stability conditions states that these proceeds have to be used to pay down debt. Despite this, we do not assume that the one-off revenues expected for this year translate into a corresponding decline in the debt ratio. This is due to the illiquid nature of some of the assets transferred to the state as part of the stability contributions (in particular, the equity stake in Islandsbanki and a collateralised bond due from the Kaupthing estate). For now, the Treasury haves stated that the outstanding balance of the central bank bond will be paid down in 2016.

This means that we assume, in addition to the central bank bond, that the remaining half of the USD1bn bond due in 2016 will be refinanced. Allowing for a small recapitalisation of the Housing Financing Fund and further favourable debt dynamics, we expect the general government debt/GDP ratio to fall to 57.4% this year, before falling further to 53.0% in 2017.

Robust Economic Growth in 2015; Inflation to Pick up This Year

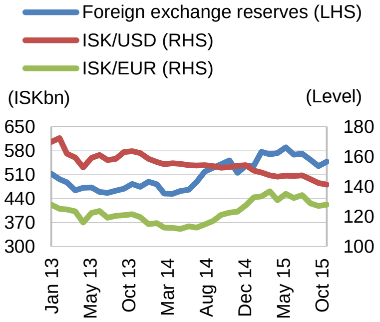
Over the first three quarters of 2015, the Icelandic economy expanded by 4.5%. Domestic demand remained the main driver of growth, with private consumption growing at an annual rate of 4.4% in 1Q15 to 3Q15 and investment almost 16% higher than a year earlier. Despite the continuing strength of the tourism sector, import growth (+10.9%) outstripped exports (+7.4%), implying a negative GDP growth contribution from net trade in 1Q15-3Q15. We estimate that real GDP growth in 2015 overall was 4.4%.

Figure 7
Real Exchange Rate and Terms of Trade



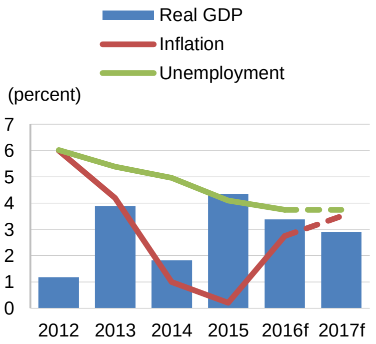
Source: CBI and Statistics Iceland

Figure 8
FX Reserves and Exchange Rates



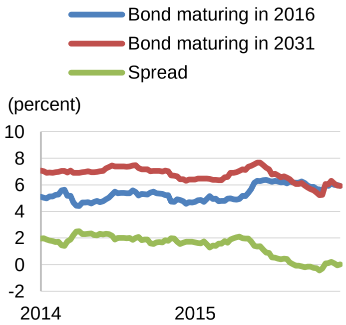
Source: CBI, Datastream

Figure 9
Macroeconomic Projections



Source: Statistics Iceland, Fitch

Figure 10
Government Bond Yields Weekly Data



Source: CBI

We expect this pattern of growth to continue over the forecast horizon. Survey data from the CBI point to continued growth in investment. Consumer and business confidence are at high levels. Strong wage growth and improving household balance sheets will continue to fuel private consumption growth. We expect the economy to expand by 3.4% this year and 2.9% in 2017 – a slight upward revision from the last review in July 2015.

This upward revision is partly explained by lower inflation forecasts and hence an assumption of slightly less tight monetary policy. Annual consumer price inflation averaged 1.6% in 2015 (we estimate that inflation on the harmonised HICP measure was 0.2%). With the krona appreciating since July (by 2.7% and 4.1% against the US dollar and euro respectively) and oil prices staying low, the projected rise in inflation in 2H15 did not materialise.

That said, we anticipate that the underlying inflationary pressures in the Icelandic economy will materialise and translate into higher prices. Nominal wage growth has already picked up, with annual growth averaging 8.3% in the three months to November, compared to 6.6% in the same three months in 2014. Unemployment fell further last year, averaging 4.1% up to November. Employment and the participation rate have risen further over the past year. The latest CBI forecast suggests that the output gap is positive and will widen further this year.

Survey data point to a rise in expected inflation in the year from 4Q14 to 4Q15. The CBI has raised interest rates by 0.75pp since the last review and has signalled that a further tightening in the monetary stance will probably be needed over the coming months. This will hinder growth, albeit to a lesser extent than we had previously thought. We forecast that HICP inflation will average 2.8% this year and 3.5% in 2017. This projection implies that the historically high wedge between CPI and HICP inflation only unwinds in part over the coming years. We expect unemployment to fall further, to 3.5% in 2017.

Strong income growth and improved balance sheets are translating into higher house prices. Also, it is not clear that tighter monetary policy is being passed on to other interest rates, given the strong offsetting movements in longer-term bond yields in recent months. In November 2015, nominal house price inflation (in greater Reykjavik) was 9.6%, compared with 7.3% in November 2014. At the same time, in real terms house prices are still around a fifth lower than their peak in late 2007.

Current Account Surplus to Narrow; FX Interventions Mitigate Krona Appreciation

We estimate that the current account surplus in 2015 was 3.2% of GDP, slightly lower than the 2014 outturn. Higher costs and prices in Iceland compared to trading partners and expansionary fiscal policy support the real exchange rate. In unit labour cost terms, the real exchange rate in 1Q15-3Q15 was 8.2% higher than in the same period a year earlier (in consumer price terms, the real exchange rate appreciated by 4.3% in 2015). Cost and price dynamics suggest this trend will continue over the next two years, with a negative impact on competitiveness. We expect the current account to narrow to 1.6% of GDP by 2017.

The upward pressure on the exchange rate last year was partly offset by acquisitions of foreign exchange reserves by the Icelandic authorities. The CBI conducted foreign exchange purchases for ISK272bn (around 12% of GDP) over 2015. At end-2015, foreign exchange reserves were ISK653bn, or 28.5% of GDP. The authorities' strong foreign exchange position has been utilised, among other things, to pay down the remaining Icelandic obligations to the IMF from the Stand-By Arrangement following the financial crisis in 2008 (about USD334m, or ISK44bn).

Fitch uses stylised projections for a sovereign's gross general government debt (GGGD)/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

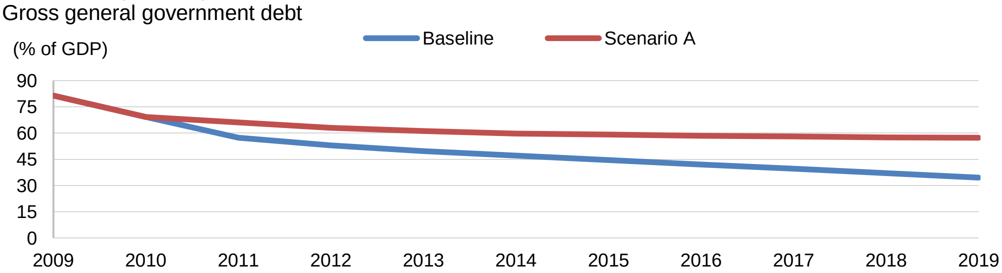
Under Fitch's baseline projections, GGGD is expected to fall to 34.5% of GDP by 2024. The sharp improvement in the 2016 primary balance does not translate one-to-one to the debt ratio (see above). In an adverse scenario of low growth, a depreciation in the nominal exchange rate of one-third, and higher interest rates, the decline in the debt ratio would level off at 57%.

Debt Dynamics – Fitch's Baseline Assumptions

	2014	2015	2016	2017	2018	2019	2024
Gross general government debt (% GDP)	81.4	69.2	57.4	53.0	49.6	44.6	34.5
Primary balance (% of GDP)	4.6	4.3	18.7	3.9	3.5	3.0	3.0
Real GDP growth (%)	1.8	4.4	3.4	2.9	2.5	2.5	2.5
Avg. nominal effective interest rate (%)	5.8	5.9	5.9	6.0	6.0	6.1	6.3
ISK/USD (annual avg.)	116.8	131.9	130.1	130.1	130.1	130.1	130.1
GDP deflator (%)	4.0	2.7	3.9	4.2	3.0	2.5	2.5

Sensitivity Analysis

Gross general government debt



Source: Fitch

Debt Sensitivity Analysis – Fitch's Scenario Assumptions

Scenario A	This assumes a one-off depreciation of 33% in 2016, lower growth, higher inflation and a 250bp increase in the marginal cost of funding

Forecast Summary

	2011	2012	2013	2014	2015	2016f	2017f
Macroeconomic indicators and policy							
Real GDP growth (%)	2.0	1.2	3.9	1.8	4.4	3.4	2.9
Unemployment (%)	7.1	6.0	5.4	5.0	4.1	3.8	3.5
Consumer prices (annual average % change)	4.2	6.0	4.2	1.0	0.2	2.8	3.5
Short-term interest rate (bank policy annual avg.) (%)	3.5	3.8	5.0	5.0	5.0	6.3	6.3
General government balance (% of GDP)	-5.6	-3.7	-1.8	-0.1	-0.2	14.9	0.6
General government debt (% of GDP)	95.1	92.7	85.4	81.4	69.2	57.4	53.0
ISK per USD (annual average)	115.95	125.08	122.18	116.77	131.90	130.06	130.06
Real effective exchange rate (2000 = 100)	76.0	75.8	79.3	84.6	88.2	92.0	95.9
Real private sector credit growth (%)	-13.9	-14.8	-6.8	-3.0	-0.2	-1.7	-1.9
External finance							
Current account balance (% of GDP)	-5.3	-4.2	5.7	3.3	3.2	2.4	1.6
Current account balance plus net FDI (% of GDP)	2.2	25.6	5.4	7.4	5.8	5.2	4.2
Net external debt (% of GDP)	578.1	507.4	484.3	411.4	49.4	37.8	28.9
Net external debt (% of CXR)	869.3	798.0	768.5	692.3	73.9	57.9	44.4
Official international reserves including gold (USDbn)	8.6	4.2	4.2	4.2	5.1	4.7	4.0
Official international reserves (months of CXP cover)	9.7	5.2	5.8	5.2	6.0	5.1	4.1
External interest service (% of CXR)	21.5	24.3	16.1	14.4	12.3	2.9	2.9
Gross external financing requirement (% int. reserves)	425.2	146.5	277.1	1,180.3	684.4	1,131.5	154.9
Real GDP growth (%)							
US	1.6	2.2	1.5	2.4	2.5	2.5	2.3
China	9.5	7.7	7.7	7.3	6.8	6.3	6.0
Eurozone	1.7	-0.8	-0.3	0.9	1.5	1.7	1.7
World	3.4	2.5	2.4	2.5	2.3	2.6	2.7
Oil (USD/barrel)	111.0	112.0	108.8	98.9	53.0	45.0	55.0

Source: Fitch

Fiscal Accounts Summary

(% of GDP)	2012	2013	2014	2015	2016f	2017f
General government						
Revenue	**41.7**	**42.4**	**45.6**	**43.1**	**56.6**	**41.6**
Expenditure	**45.5**	**44.2**	**45.7**	**43.3**	**41.7**	**41.0**
O/w interest payments	4.9	4.7	4.7	4.5	3.8	3.3
Primary balance	1.2	2.9	4.6	4.3	18.7	3.9
Overall balance	**-3.7**	**-1.8**	**-0.1**	**-0.2**	**14.9**	**0.6**
General government debt	**92.7**	**85.4**	**81.4**	**69.2**	**57.4**	**53.0**
% of general government revenue	222.1	201.7	178.4	160.5	101.4	127.3
Central government deposits	28.7	22.8	31.2	19.3	21.8	20.4
Net general government debt	64.0	62.6	50.2	49.8	35.6	32.6
Central government						
Revenue	**30.8**	**31.1**	**34.5**	**32.6**	**-**	**-**
O/w grants	0.6	0.6	0.5	0.5	-	-
Expenditure and net lending	**34.0**	**32.9**	**33.7**	**31.9**	**-**	**-**
O/w current expenditure and transfers	30.3	29.6	30.3	28.7	-	-
- Interest	4.3	4.3	4.4	3.7	-	-
O/w capital expenditure	4.6	4.1	5.7	-	-	-
Current balance	0.5	1.6	0.0	-	-	-
Primary balance	1.1	2.5	5.2	4.4	-	-
Overall balance	**-3.3**	**-1.8**	**0.8**	**0.7**	**-**	**-**
Central government debt	84.8	77.3	74.8	62.9	52.2	48.1
% of central government revenues	275.6	248.1	216.8	192.9	121.9	153.0
Central government debt (ISKbn)	**1,505.0**	**1,451.6**	**1,487.2**	**1,340.2**	**1,194.9**	**1,181.5**
By residency of holder						
Domestic	1,292.4	1,274.5	1,177.1	1,018.5	908.1	897.9
Foreign	212.6	177.1	310.1	321.6	286.8	283.6
By currency denomination						
Local currency	1,070.0	1,061.9	1,071.8	1,028.9	982.4	971.4
Foreign currency	435.0	389.7	415.4	311.3	212.5	210.1
In USD equivalent (eop exchange rate)	3.4	3.4	3.3	2.4	1.6	1.6
Average maturity (years)	6.4	6.3	7.3	7.0	7.0	7.0
Memo						
Nominal GDP (ISKbn)	1,775.5	1,878.7	1,989.3	2,131.5	2,289.6	2,454.0

Source: Statistics Iceland, IMF and Fitch estimates and forecasts

External Debt and Assets

(USDbn)	2010	2011	2012	2013	2014	2015e
Gross external debt	**121.0**	**111.4**	**102.6**	**107.5**	**98.0**	**24.6**
% of GDP	913.9	759.4	722.6	699.4	575.1	152.4
% of CXR	1,555.6	1,141.8	1,136.3	1,109.9	967.7	228.2
By maturity						
Medium-and long-term	77.6	70.0	66.4	72.6	64.6	16.2
Short-term	43.4	41.4	36.2	34.9	33.4	8.4
% of total debt	35.8	37.2	35.3	32.5	34.1	34.1
By debtor						
Sovereign	**7.3**	**8.6**	**6.4**	**6.3**	**5.3**	**4.7**
Monetary authorities	2.4	3.2	1.5	1.5	0.7	0.3
General government	4.9	5.4	4.9	4.8	4.6	4.3
O/w central government	1.6	1.5	1.6	1.5	2.4	2.5
Banks	**1.8**	**1.3**	**0.9**	**1.3**	**1.2**	**1.1**
Other sectors	**111.9**	**101.5**	**95.2**	**100.0**	**91.5**	**18.9**
Gross external assets (non-equity)	**26.0**	**26.6**	**30.5**	**33.1**	**27.9**	**16.7**
International reserves, incl. gold	5.8	8.6	4.2	4.2	4.2	5.1
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	3.0
Other sector foreign assets	17.8	15.1	23.5	24.7	20.6	8.7
Net external debt	**95.0**	**84.8**	**72.0**	**74.5**	**70.1**	**8.0**
% of GDP	717.5	578.1	507.4	484.3	411.4	49.4
Net sovereign external debt	1.5	0.1	2.2	2.1	1.1	-0.3
Net bank external debt	-0.6	-1.7	-2.0	-2.9	-1.9	-1.9
Net other external debt	94.1	86.3	71.7	75.3	70.9	10.2
Net international investment position	**-85.2**	**-75.6**	**-64.0**	**-65.7**	**-61.4**	**-0.5**
% of GDP	-643.8	-515.2	-450.9	-427.2	-360.6	-2.8
Sovereign net foreign assets	**-1.5**	**-0.1**	**-2.2**	**-2.1**	**-1.1**	**0.3**
% of GDP	-11.6	-0.7	-15.8	-13.6	-6.4	1.6
Debt service (principal & interest)	**20.1**	**25.9**	**14.1**	**14.1**	**52.0**	**30.4**
Debt service (% of CXR)	258.2	265.9	156.4	145.0	514.1	282.0
Interest (% of CXR)	23.2	21.5	24.3	16.1	14.4	12.3
Liquidity ratio (%)	10.1	12.8	21.3	15.1	10.2	11.2
Net sovereign FX debt (% of GDP)	-21.3	-33.4	-5.8	-5.6	-5.3	-16.7
Memo						
Nominal GDP	13.2	14.7	14.2	15.4	17.0	16.2
Inter-company loans	11.7	12.2	11.1	12.0	11.9	8.4

Source: CBI, IMF and Fitch estimates and forecasts

Balance of Payments

(USDbn)	2012	2013	2014	2015	2016f	2017f
Current account balance	**-0.6**	**0.9**	**0.6**	**0.5**	**0.4**	**0.3**
% of GDP	-4.2	5.7	3.3	3.2	2.4	1.6
% of CXR	-6.7	9.1	5.6	4.9	3.7	2.4
Trade balance	**0.1**	**0.1**	**-0.1**	**-0.4**	**-0.5**	**-0.6**
Exports, fob	4.6	4.6	4.9	5.0	5.4	5.8
Imports, fob	4.5	4.5	5.0	5.4	5.9	6.5
Services, net	**0.8**	**1.2**	**1.2**	**1.5**	**1.5**	**1.5**
Services, credit	3.5	4.0	4.3	4.9	5.2	5.6
Services, debit	2.7	2.8	3.1	3.4	3.7	4.0
Income, net	**-1.3**	**-0.2**	**-0.4**	**-0.4**	**-0.4**	**-0.4**
Income, credit	0.9	1.0	0.9	0.8	0.8	0.8
Income, debit	2.2	1.3	1.2	1.2	1.2	1.2
O/w: Interest payments	2.2	1.6	1.5	1.3	0.3	0.4
Current transfers, net	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
Capital and financial accounts						
Non-debt-creating inflows (net)	5.5	-0.6	-0.4	4.1	0.9	0.9
O/w equity FDI	5.6	-0.6	-0.2	3.9	1.0	1.0
O/w portfolio equity	-0.1	0.0	-0.1	0.2	-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	0.8	0.1	-0.2
Gross external financing requirement	12.5	11.6	50.0	28.6	57.6	7.3
Stock of international reserves, incl. gold	4.2	4.2	4.2	5.1	4.7	4.0

Source: CBI, IMF and Fitch estimates and forecasts

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