Credit Analysis

Iceland

Ratings

Foreign Currency

Long-Term IDR	BBB-
Short-Term IDR	F3

Local Currency

Long-Term IDR	A-
Country Ceiling	BBB-

Watches

Foreign-Currency Long-Term IDR	Negative
Foreign-Currency Short-Term IDR	Negative
Local-Currency Long-Term IDR	Negative
Country Ceiling	Negative

Financial Data

Iceland

	2008
GDP	16.6
GDP per head (USD 000)	52.5
Population (m)	0.3
International reserves	3.6
Net external debt (% GDP)	344.1
Central government total debt (% GDP)	63.6
CG foreign-currency debt	2.6
CG domestically issued debt (ISKbn)	613.7

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Related Research

- *Iceland: A Difficult Road Ahead (December 2008)*
- *Iceland and the Banks: Questions and Answers (May 2008)*
- *Iceland: Macro Imbalances Trigger Negative Outlook (February 2006)*
- *Sovereign Data Comparator (June 2009)*
- *Guide to Sovereign Credit Report (October 2008)*
- *Sovereign Rating Methodology (October 2007)*
- *Global Economic Outlook (June 2009)*

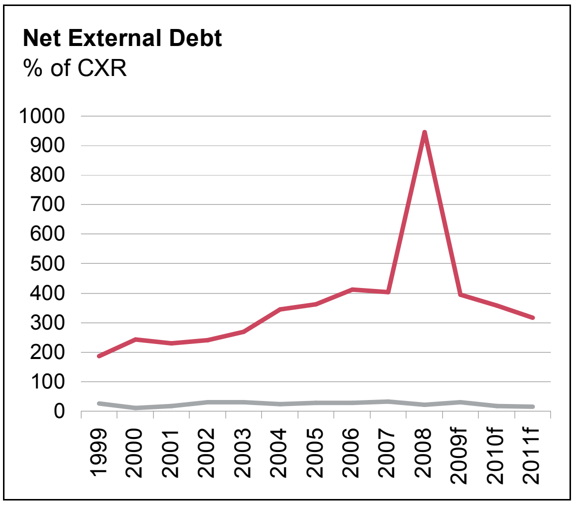
Rating Rationale

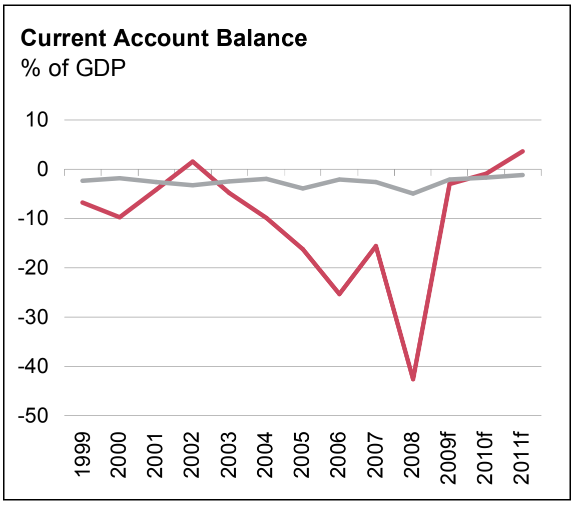
- The collapse of Iceland's financial sector in late September and early October 2008 and the elevated risks it posed to sovereign creditworthiness triggered multiple downgrades of the republic's Long-Term Foreign- and Local-Currency Issuer Default Ratings to 'BBB–' and 'A–' respectively on 8 October. The ratings were put on Rating Watch Negative pending the development of a coherent and credible macroeconomic stabilisation programme, backed by the IMF.
- The fall-out from the financial crisis has been severe: the real economy is on course for a steep contraction of some 10% of GDP in 2009, while extensive pain has been inflicted on the public-sector balance sheet, as well as corporate and household finances. Sovereign debt service has, nonetheless, been maintained throughout, facilitated by the imposition of capital controls and an IMF brokered financial rescue package approved in November 2008.
- Fitch Ratings estimates the direct fiscal costs of recapitalising the financial system at 40% of GDP, on a par with some of the Asian financial crises of the late 1990s. Externally, it expects the public sector to assume over USD10bn in new direct and indirect foreign liabilities by end-2010 to rebuild international reserves, honour overseas deposit insurance obligations and stabilise the exchange rate, in preparation for the phased withdrawal of capital controls.
- Encouraging progress has been made towards restructuring the financial system. Faced with double-digit fiscal deficits and soaring public indebtedness, a newly elected government has also brought forward a comprehensive medium-term fiscal consolidation programme originally timed for late 2010.
- There appear to be no outstanding issues between the IMF and Iceland over the first review of the stand-by agreement, which should go before the IMF board in early September. Approval would release a further USD164m in IMF funding and USD625m of associated bilateral funds, boosting reserves to almost USD4bn.
- After prolonged and heated debate, parliament passed legislation authorising the state guarantee of UK and Dutch government loans of GBP2.35bn and EUR1.3bn respectively to the Depositors' and Investors' Guarantee Fund (DIGF) to finance the compensation of 'Icesave' depositors. However, the UK and Dutch governments have yet to publicly state their agreement to the loan agreements as amended by the Icelandic parliament. Final resolution of the Icesave issue would "unlock" additional bilateral and IMF lending, eliminate uncertainty over the extent to which Icesave claims are a potential fiscal liability, and clear the path for accession to the European Union.
- Public debt sustainability will remain an enduring concern. Iceland is set to emerge from this crisis with some of the weakest public finance metrics of any Fitch-rated sovereign. However, gross general government debt (GGD) ratios of some 114% by end-2010 are tempered by more modest net GGD ratios of close to 75%, more akin to the bottom rung of investment grade. Moreover, this ratio needs to be considered in conjunction with Iceland's superior income per head and robust tax base compared with near rating peers Hungary and India.

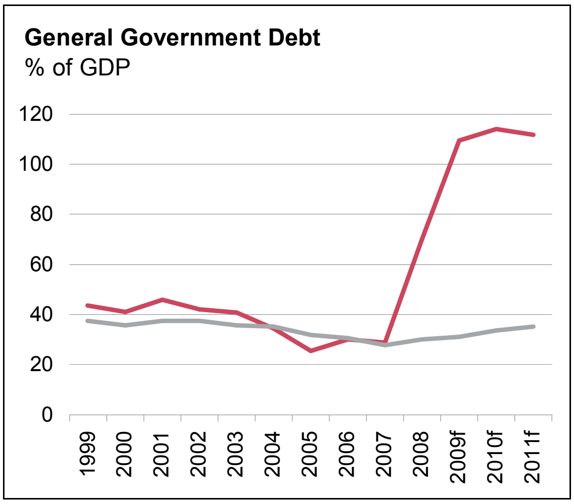
What Could Trigger a Downgrade?

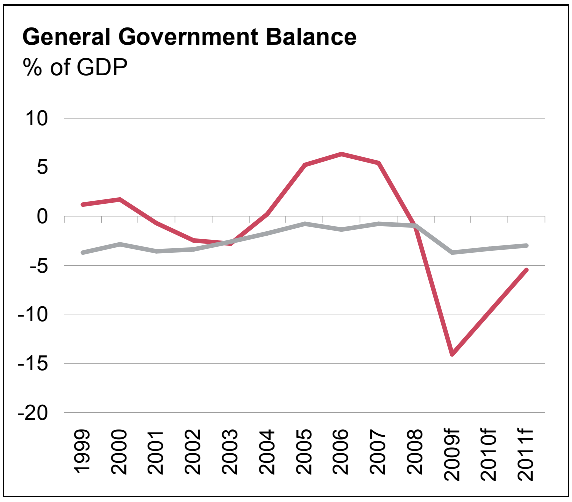
- Failure to resolve the Icesave issue
- Further deterioration in Iceland's public debt ratios beyond 2010
- Failure to entrench macroeconomic stability and stabilise the ISK

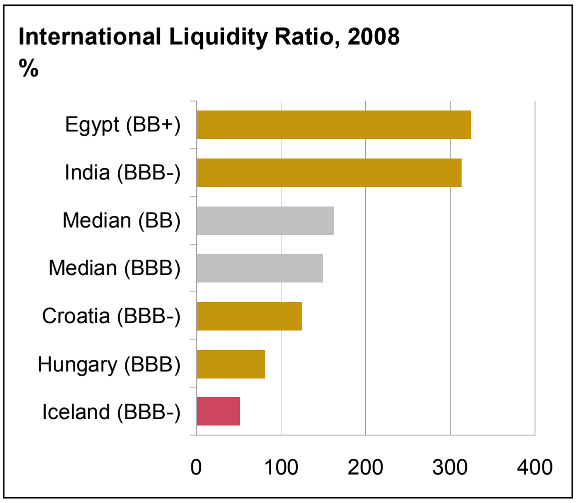
Peer Comparison

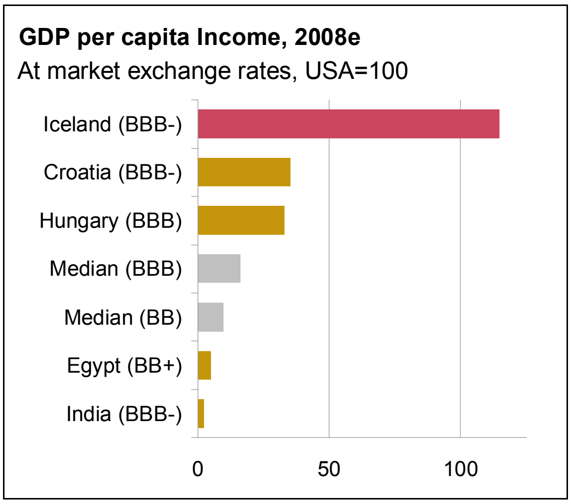












Iceland Medians

Peer Group

Rating	Country
BBB	Aruba
	Hungary
	Lithuania
	Russia
	Thailand
	Tunisia
BBB-	**Iceland**
	Brazil
	Bulgaria
	Croatia
	India
	Kazakhstan
	Morocco
	Namibia
	Peru
BB+	Azerbaijan
	Colombia
	Egypt
	Guatemala
	Latvia
	Macedonia
	Panama
	Romania

Source: Fitch

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
08 Oct 08	BBB-	A-
30 Sep 09	A-	AA
15 Mar 07	A+	AA+
03 Feb 00	AA-	AAA

Source: Fitch

Rating Factors

Summary: Strengths and Weaknesses

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

Note: Relative to 'BBB' category
Source: Fitch

Strengths

- In qualitative terms — measures of governance, human development, ease of doing business — Iceland is more akin to a high-grade sovereign than a 'BBB'. These attributes, coupled with European Economic Area status and significant legislative overlap with the EU, could expedite a formal bid for EU membership, which would support sovereign creditworthiness in the medium term.
- Iceland's superior income per head is indicative of a greater level of "debt tolerance" than poorer rating peers which, together with its robust tax base and well-endowed pension funds, supports sovereign creditworthiness.
- An established track record of public debt reduction, prior to the financial crisis, has already begun to reassert itself in the shape of a medium term (2009-2013) fiscal consolidation programme designed to restore fiscal balance by 2013 and reduce Treasury debt to below 60% of GDP over the longer term.

Weaknesses

- Iceland's financial crisis has inflicted a material deterioration on sovereign creditworthiness: the cost of recapitalising the financial system is estimated at 40% of GDP, putting it on a par with the Asian financial crises of the 1990s.
- Fitch projects gross GGD to rise fourfold to 114% of GDP by end-2010 (excluding Icesave obligations)[1], the fastest rate of increase of any Fitch-rated sovereign in recent times. Net debt of 75% of GDP should be more closely aligned with 'BBB'-range peers such as Hungary ('BBB'/Negative Outlook), but an interest/revenue ratio of 18% and contingent liabilities arising from Icesave presage a long period of fiscal consolidation.
- An extended period of financial sector restructuring and domestic deleveraging will dampen Iceland's medium-term growth prospects. Although shrinking, net external debt will remain high at a projected 166% in 2011, while Iceland will become a clear stand-out on measures of sovereign net external indebtedness.
- Iceland has yet to fully normalise relations with the rest of the world and extensive capital controls remain in place. Extensive currency mismatches in government, household and corporate balance sheets and the overhang of "trapped" non-resident investment in ISK assets greatly complicate the removal of these controls and the conduct of monetary and exchange rate policies.

Local Currency Rating

The Long-term Local-Currency IDR of 'A–', three notches higher than the Long-Term Foreign-Currency IDR, reflects the relative sophistication and depth of the domestic ISK bond market.

Country Ceiling

The Country Ceiling is aligned with the sovereign's Long-Term Foreign-Currency IDR, reflecting the prevalence of capital controls. Some USD5bn (equivalent) of non-resident investment in local-currency debt instruments remains "locked in", while significant uncertainties relate to repayment of private-sector non-bank debt and payment arrears appear to be accumulating.

[1] The latest Monetary Bulletin of the Central Bank of Iceland estimates public debt at 165% of GDP in 2009; this estimate includes the assumption of Icesave obligations on to the sovereign's balance sheet and a high estimate for bank recapitalisation costs.

Outlook and Key Issues

The collapse of Iceland's financial sector in late September and early October 2008, coupled with elevated risks to sovereign creditworthiness, triggered multiple downgrades of the Republic's Long-Term Foreign- and Local-Currency IDR to 'BBB−' and 'A−' respectively on 8 October. Iceland's sovereign ratings remain on Rating Watch Negative. The fall-out from the financial crisis has been severe: the real economy is on course for a steep contraction of some 10% of GDP in 2009, while extensive pain has been inflicted on the public-sector balance sheet, as well as corporate and household finances. Sovereign debt service has, nonetheless, been maintained throughout, facilitated by the imposition of capital controls and an IMF-brokered financial rescue package approved in November 2008.

Key considerations in this sovereign rating review accord closely with the authorities own ordering of priorities:

- progress towards finalising bilateral and multilateral loan arrangements to strengthen international reserves and normalise Iceland's external financial relations with the rest of the world;
- financial sector restructuring;
- early approval of a medium-term fiscal consolidation programme to address public debt sustainability concerns; and
- prospects for joining the EU.

Bilateral/Multilateral Loan Arrangements

On 19 November 2008 the IMF approved a two-year USD2.1bn stand-by arrangement (SBA), supplemented by USD3.25bn of official bilateral funding[2]. However, in order for the programme to be fully funded it was acknowledged that the Icelandic authorities would have to reach supplementary agreements with the UK and Dutch governments over the settlement of some USD5bn of outstanding deposit insurance obligations relating to failed Landsbanki's Icesave internet accounts.

To date, Iceland has received USD827m from the IMF and USD60m from the Faroe Islands. Iceland's Nordic neighbours have also approved a loan of USD2.5bn to be disbursed in four equal instalments[3] in tandem with successive reviews of the IMF programme. Poland and Russia are expected to agree smaller sums of USD200m and USD500m at a later date. Following protracted negotiations, the Icelandic authorities have also reached agreement with the UK and Dutch governments for loans of GBP2.35bn and EUR1.3bn respectively to cover the private Depositors' and Investors' Guarantee Fund's (DIGF) obligation to reimburse up to EUR20,887 on some 345,000 Icesave deposits. These loans will begin to amortise in 2016, following a seven-year grace period, and will carry a fixed interest rate of 5.55%, with interest payments being capitalised over the first seven years. While the DIGF is the nominal obligor, it is intended that a government guarantee should apply to the outstanding balance from 2016.

A key consequence of the government-to-government agreement on Icesave was the unfreezing of Landsbanki's assets in the UK on 15 June; this had been in place since October 2008. Henceforward, the Icelandic authorities should be free to maximise recoveries of the "old" Landsbanki's foreign assets during the window of opportunity provided by the seven-year grace period. Independent estimates from internationally accredited auditors imply potential recovery ratios of 75%-95%. Thereafter, there is an assumption that the state will become liable, under the government guarantee, for repaying the balance of the loan starting in 2016.

Long-Term Public Foreign-Currency Borrowing

Instrument	Amount (m)	Maturity
EMTN (bond)	EUR150	30 Sep 09
EMTN (bond)	EUR1,000	1 Dec 11
EMTN (bond)	EUR250	10 Apr 12
EMTN (bond)	USD200	10 Mar 14
Bonds	GBP30	31 Jan 16
Syndicated loan	EUR300	22 Sep 11
IMF SBA[a]	SDR1,400	31 Dec 15
Bilateral[b]	USD3,250	1 Dec 20
Memo		
Icesave loan (govt g'teed)	USD5,250	5 Jun 23

[a] Stand-by arrangement. Not yet fully disbursed
[b] Government-to-government. Not yet fully disbursed. Nordic/Faroe Islands loans have been signed; Russia and Poland still under negotiation
Source: Central Bank of Iceland

[2] Nordic partners Finland, Sweden, Norway and Denmark have agreed to support the programme, together with the Faroe Islands, Poland and Russia

[3] This loan will amortise over 12 years (including a five-year grace period) and attract a floating interest rate of three-month Euribor plus a margin of 275bp

Parliament approved the guarantee, subject to certain criteria and preconditions aimed at securing greater long term debt sustainability, on 28 August. However, Fitch notes that further consultations will be necessary with the British and Dutch governments before the Icesave issue can be deemed to have been resolved.

While there is no explicit link between resolution of the Icesave issue and completion of the first review of the IMF programme — originally due in February, but now scheduled for early September — without it, new bilateral loans from the Nordics are unlikely to be forthcoming, and hence the IMF programme would not, as currently designed, be "fully funded" (ie there would be an external "financing gap") and could not be approved by the IMF board. While Iceland is not in any immediate need of IMF/bilateral funds that would potentially be unlocked by resolution of the Icesave agreement, a prolonged impasse over this issue would greatly complicate IMF and bilateral relations and damage prospects for EU accession. It would also impair Iceland's efforts to stabilise the economy and regularise international financial flows, given the uncertainty that would remain over the size of the potential fiscal liability arising from Icesave and hence the credibility of the government's fiscal programme and thus solvency.

Bank Restructuring

Iceland's three major banks — Kaupthing, Glitnir and Landsbanki — collapsed over a matter of days in September–October 2008 and were put into administration by the Icelandic Financial Supervisory Authority (FME). The authorities subsequently sought to ring-fence the banks' domestic operations and ensure that the payment system remained operational, which it did. However, this operation created an untidy split between the "new" (domestic) and "old" banks' assets and liabilities, resulting in massive imbalances for the new banks between foreign-currency-denominated assets (mortgages and loans extended to residents) and ISK-denominated liabilities (mostly domestic deposits). In addition to having a huge "open" foreign-currency position, the new banks were not able to finalise opening financial statements until the creditors of the old banks had been compensated for any discrepancy between the value of the assets and liabilities that were transferred. And without a proper statement of finances and final separation between the old and the new banks, the authorities were unable to determine the scale of capital injection required by the new banks.

In an agreement announced on 20 July, the government committed to recapitalise the new banks to the tune of ISK270bn (19% of GDP), employing a mixture of government debt (non-tradeable floating-rate notes) and subordinated loans. In recompense for the transfer of assets to the new banks, resolution committees representing the mostly foreign bond holders of Glitnir and Kaupthing banks will receive subordinated bonds denominated in fx and options to acquire majority ownership in Islandsbanki (the successor to Glitnir) and New Kaupthing in 2011-2015. The state will remain the sole owner of New Landsbanki, reflecting the overriding claims of the British and Dutch governments arising from its predecessor's Icesave internet banking deposit liabilities.

Bank restructuring is a key aspect of the IMF programme and one that the authorities have been careful to conduct in line with international best practice. From a rating point of view it helps to draw a line under the significant contingent liabilities that have been hanging over the government since last October: the outcome has been positive in the sense that the cost of recapitalising the system has come in well below budget (ISK385bn) and could yet fall as low as ISK200bn. Moreover, finalising the separation of the new from the old banks is essential for the creation of a functioning banking sector that can ultimately support economic development. Foreign ownership should also help limit future financial sector risks to the Treasury in a manner that was wholly absent in the 2008 crisis, while reconnecting Iceland to international financial markets[4]. However, new banks face significant challenges: 60%-70% of their corporate loan portfolios are in need of restructuring, while many households (particularly those who borrowed in foreign currency) are in financial distress[5]. As such, further episodes of recapitalisation cannot be ruled out.

Fiscal Costs of Bank Crises (% of GDP)

Country	Crisis period	Gross outlay
Chile	1981-1983	52.7
Finland	1991-1994	12.8
Iceland	**2008-2009**	**40.5**
Indonesia	1997-2003	56.8
Korea	1997-2000	31.2
Norway	1987-1989	2.5
Sweden	1991-1993	4.4
Thailand	1997-2000	43.8
Turkey	2000-2003	29.7
USA	1984-1991	3.7
Venezuela	1994-1995	15.0

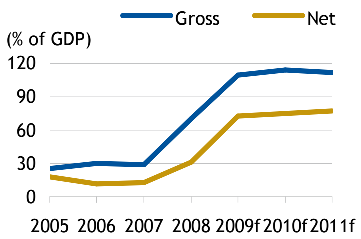
Source: IMF, Fitch

Fiscal Consolidation

Iceland's financial crisis has inflicted a material deterioration on sovereign creditworthiness. The direct fiscal costs of recapitalising the Central Bank of Iceland (CBI) and the new banks' balance sheets has been of the order of 40% of GDP to date, putting it on a par with the Asian financial crises of the late 1990s. These costs have been incurred below the line in a general government accounting framework and exclude the broader costs associated with the output losses that have ensued in the real economy. A sharp contraction in tax revenues (–8.5% of GDP versus 2007) coupled with rising expenditure related to higher debt service and transfer payments promises to propel general government finances from near balance in 2008 to a deficit of over 14% of GDP in 2009. Marching in step with this deterioration will be a dramatic swing in the primary balance from a surplus of 8% of GDP in 2007 to a deficit of 7.4% of GDP in 2009.

Fiscal deterioration has been tempered by Iceland's strong starting point: Iceland ran general government surpluses of 5%-6% of GDP in 2005-2007, allowing gross GGD to fall to 29% of GDP in 2007 and net debt to just 13% of GDP. Even so, given the size of the financial sector relative to GDP and the extent of output losses, Iceland is set to emerge from this crisis with some of the weakest public finance metrics of any sovereign in the Fitch-rated universe. Gross GGD is projected to rise four-fold to 114% of GDP by end-2010. This would be the fastest rate of increase of GGD of any Fitch-rated sovereign in recent times[6] and would leave Iceland's debt ratios on a par with euro-zone-shielded Italy ('AA–') and Greece ('A'), and sub-investment-grade sovereigns like Lebanon ('B–') and Jamaica ('B'). This projection excludes the impact of the Icesave agreement, which does not technically become a government-guaranteed obligation until 2016. Allowing for potential asset recoveries of up to 75% in the interim period, the net present value of remaining Icesave liabilities would be approximately 17% of GDP.

General Government Debt



Source: Fitch

Fitch draws a distinction between gross and net GGD; in Iceland's case, the difference is compelling, with net GGD ratios more closely aligned to 'BBB' parameters than gross GGD ratios would suggest. Iceland opened the year with general government deposits of some 10% of GDP, helping to ease near-term cash flow considerations. Moreover, because of the manner in which the government has chosen to contract balance-of-payments loans, routeing them mainly through general government, deposits are set to rise sharply to some 44% of GDP by end-2010 as the government deposits the fx proceeds from the Nordic loans with the CBI. Net GGD is estimated at 75% of GDP in 2010, on a par with Hungary ('BBB') and India ('BBB–'), countries with markedly lower per capita incomes than Iceland.

The most pressing challenge for the government is to return the public finances to a sustainable path and create the necessary fiscal space to accommodate a more than threefold increase in the debt service burden: interest service/revenue is set to rise from 5% in 2007 to 18% by 2010. The government has outlined a medium-term fiscal consolidation programme aimed at restoring primary surplus by 2011 and headline surpluses by 2013, implying a fiscal adjustment of ISK179bn (13% of 2009 GDP) over 2009-2013, with 40% of the adjustment occurring in 2009-2010. The main burden of

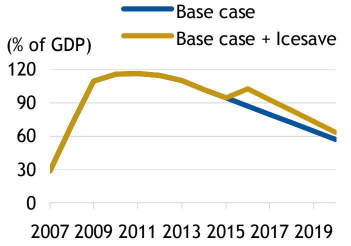
[4] However, it is important to note that external creditors' claims against the old banks have been in no way extinguished by this deal. Bondholders will continue to be at liberty to pursue these claims through normal channels, liquidating old banks' external assets wherever feasible

[5] One in six households, accounting for 29% of total debt, spend more than 50% of their disposable income on debt service

[6] Only Ireland comes close, with a rise in GGD/GDP from 25% in 2007 to 100% by end-2010

adjustment is set to fall on primary expenditure, which Fitch forecasts to contract by 9pp of GDP by 2013; however, there is also scope for higher taxation and revenues are projected to rise by 6pp of GDP, although they will remain slightly below their 2005-2006 peaks of 35% of GDP.

Public Debt Projections

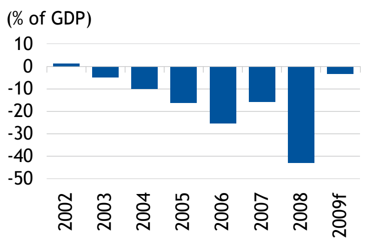


Source: Fitch

The Treasury's main goal is to reduce central government debt (which is closely aligned to GGD) to below 60% of GDP over the long term. Providing the government can maintain a primary surplus of 7% of GDP from 2014 onwards – a level comparable to 2005-2007 – and the economy returns to trend growth of 5% (base case), Fitch believes this level of indebtedness could be attained by 2020. However, a high margin of uncertainty attaches to such calculations, while there will be considerable downside macroeconomic risk, particularly in the near term. Other factors will also impinge on these calculations, notably the assumption of remaining Icesave obligations from 2016 (see chart). Conversely, the government has acquired financial assets – partial/full ownership of the new banks – proceeds from the sale of which could be applied to accelerated debt reduction.

External Finances

Current Account Balance

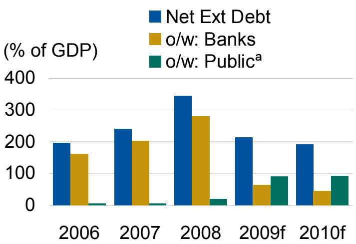


Source: Fitch

Iceland's external imbalances are correcting rapidly now: the trade balance swung from an annualised deficit of 3.5% of GDP in H108 to a surplus of 5% in H109, while the Q109 current account deficit came in at 15% of GDP, down from 78% of GDP in Q408. Nonetheless, despite these swings, coupled with strict capital controls and continued intervention by the CBI in the fx market, the ISK has remained weak, trading close to all-time lows against the euro registered last October. Offshore, the ISK trades at a discount of more than 20%, albeit in a very thin market. Permissible external debt service has weighed heavily on the ISK, while controversy over the Icesave agreement and its perceived implications for future IMF and Nordic loan disbursements have adversely affected investor sentiment such as it is.

Continued ISK weakness has forestalled any further cuts in policy rates and capped expectations of any early unwinding of capital controls. The CBI estimates that ISK610bn (USD5bn) of non-resident holdings of ISK assets remain locked in, 10% down on early 2009 estimates. The authorities expect to phase out capital controls over an as yet fluid time horizon. The forecasts in this report assume that non-resident holdings unwind over three years starting in late 2009. Timely disbursements of IMF/bilateral funding will be essential to strengthen international reserves and support the ISK throughout this process. Fitch estimates that the financial rescue package should be sufficient to sustain reserves at more than six months' of current external payments through 2010. Heavy sovereign external debt service could, however, put the external financial position under renewed pressure in 2011[7], unless Iceland regains international financial market access by then, highlighting the importance of resolving the Icesave dispute.

Iceland: Net External Debt



[a] Incl 'Icesave'
Source: Fitch

The collapse of the financial sector and the old banks' ensuing default on some USD90bn of external financial obligations have virtually eliminated Iceland's current account deficit and will transform its international investment position (IIP) over time. For the moment, the authorities continue to record the old banks' external assets and liabilities at face value and it is hard to determine how quickly they will scale down. Based on a stylised assumption that this process is largely complete by end-2011, Fitch expects net external debt to contract from a peak of 344% of GDP in 2008 to 166% by 2011. Iceland would still be an outlier among 'BBB'-range sovereigns at this level, but to a lesser extent than the wide gap that obtained when it was at higher rating levels[8]. However, a key measure of the cost of the financial crisis will be the rise in public net external indebtedness from barely 6% of GDP in 2007 to 55% in 2010 and 92% if the outstanding balance on Icesave is included (although technically an obligation of the DIGF).

[7] EUR1bn eurobond and a EUR300m syndicated loan fall due in 2011

[8] 'BBB' rated Hungary at 116% of GDP in 2011 would be the nearest comparator

Euro Area Membership: An Exit Strategy?

Iceland's financial crisis has reopened the debate about the merits of joining the euro area and subsequently joining the euro, and parliament recently voted to start accession talks, probably in 2010. Euro membership would have forestalled a dramatic balance-of-payments and currency crisis, though the imbalances that were present in the Icelandic economy would have imposed a very severe adjustment, and most critically provided the banks with access to a credible "lender of last resort" (LLR) in the form of the European Central Bank (ECB). Public support for EU membership and the adoption of the euro has gained growing traction since the crisis broke, and a failure to stabilise the krona could give rise to extensive de facto use of the euro both as a unit of exchange and a store of value in Iceland. However, unilateral adoption of the euro would have little to commend it, since it would deny Iceland the advantages that formal membership of the euro area brings, not least the ECB as LLR for the banking sector.

In theory, an application to join the EU could be fast-tracked, the more so given that as a member of the European Economic Area Iceland's legislative framework is already closely aligned with the "acquis communautaire", the body of EU laws that all prospective members are required to conform with. However, Iceland would still have to pass through the Commission's complex bureaucratic procedures, while EU accession would require ratification by all 27 of the current member states at a time when some member states have started to question the wisdom of further expansion. Domestically, accession would require a referendum, while talks could easily become bogged down over the EU's fisheries policy. At best, Iceland could be looking at a wait of two years following compliance with the acquis and a further three years before stepping up to full euro area membership. Slovenia, the most recent EU entrant to the euro area, conformed to this timetable and it would be unrealistic for Iceland to assume that it could leapfrog this experience at this stage.

Forecast Summary

	2005	2006	2007	2008	2009f	2010f	2011f
Macroeconomic indicators and policy							
Real GDP growth (%)	7.4	4.5	5.5	0.3	-10.4	-0.3	2.5
Consumer prices (annual average % change)	4.2	6.7	5.1	12.7	10.0	5.0	2.5
Short-term interest rate (%)[a]	9.4	12.5	13.3	16.5	10.0	7.0	5.0
General government balance (% of GDP)	5.2	6.3	5.4	-1.2	-14.1	-9.8	-5.5
General government debt (% of GDP)	25.4	30.1	28.7	70.3	109.5	114.1	111.7
ISK per USD (annual average)	63.0	70.2	64.1	88.5	120.3	117.5	112.5
Real effective exchange rate (2000 = 100)	100.0	93.2	98.5	89.6	74.9	80.4	86.0
External finance							
Current account balance (USDbn)	-2.6	-4.2	-3.2	-7.1	-0.3	-0.1	0.5
Current account balance (% of GDP)	-16.2	-25.4	-15.6	-42.7	-3.0	-0.9	3.6
Current account balance plus net FDI (% of GDP)	-40.7	-33.3	-60.3	3.7	-2.1	1.1	7.2
Net external debt (USDbn)	24.0	32.6	48.7	57.0	25.0	24.0	23.5
Net external debt (% of GDP)	147.0	196.0	239.5	344.1	214.3	191.2	166.0
Net external debt (% of CXR)	362.2	412.6	403.2	946.3	395.7	357.8	317.1
Official international reserves including gold (USDbn)	1.1	2.3	2.6	3.6	3.3	3.6	2.9
Official international reserves (months of CXP cover)	1.4	2.3	2.1	3.3	6.0	6.3	5.1
External interest service (% of CXR)	14.7	30.0	36.5	76.7	18.9	16.3	10.5
Gross external financing requirement (% int. reserves)	584.5	716.9	561.8	512.6	85.1	74.0	50.3
Memo: Global forecast summary							
Real GDP growth (%)							
US	2.9	2.8	2.0	1.1	-3.1	1.3	1.7
Japan	1.9	2.1	2.3	-0.6	-6.9	0.9	1.5
Euro area	2.9	2.8	2.0	0.6	-4.5	-0.3	1.9
World	1.8	3.0	2.6	1.7	-3.3	1.4	2.5
Commodities							
Oil (USD/barrel)	54.4	65.4	72.6	97.0	55.0	65.0	70.0

[a] Central Bank of Iceland policy interest rate (annual average)
Source: Fitch

Comparative Analysis: Macroeconomic Performance and Policies

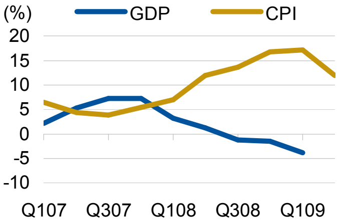
Iceland

	2008						
	Hungary 'BBB'	Croatia 'BBB-'	Iceland 'BBB-'	India 'BBB-'	Egypt 'BB+'	'BBB' median	'BB' median
Real GDP (5yr average % change)	2.9	4.2	5.1	8.5	5.9	5.3	6.0
Volatility of GDP (10yr rolling SD)	1.6	1.9	2.6	2.1	1.6	2.1	3.1
Consumer prices (5yr average)	5.6	3.5	6.3	5.8	10.2	5.4	7.9
Volatility of CPI (10yr rolling SD)	2.4	1.4	3.0	1.6	5.0	2.5	3.7
Years since double-digit inflation	10.0	14.0	0.0	14.0	0.0	n.a.	n.a.
Unemployment rate	7.8	8.4	1.6	9.5	8.7	7.2	7.5
Type of exchange rate regime	Managed float	Managed float	Managed float	Managed float	Managed float	n.a.	n.a.
Dollarisation ratio	20.3	-	-	2.0	-	20.3	51.2
REER volatility (10yr rolling SD)	5.5	2.5	7.9	4.3	12.1	4.3	8.9

Source: Fitch

Output and Prices

% change year-on-year



Source: Statistics Iceland, CBI

Strengths

- Despite the policy failures leading up to the financial crisis, policy-making institutions remain intact and the authorities are committed to honouring their sovereign obligations and restoring confidence in their solvency. Indeed, the government has accelerated plans for medium-term fiscal consolidation by a year, underlining its appetite for macroeconomic stabilisation and reform.
- While the fiscal consequences of the financial crisis have been severe, the sovereign's ability to withstand this shock has been enhanced by its strong starting position. More than a decade of prudent fiscal management culminated in annual general government surpluses of 5%-6% of GDP in 2005-2007 and GGD of 29% of GDP, down from 58% a decade earlier.
- In the past, the economy has displayed an impressive track record of adjusting to external shocks, reflecting flexible labour and product markets and a penchant for national unity in the face of adversity.

Weaknesses

- Iceland's business model has been comprehensively discredited, leaving all sectors of the economy — corporates, households and the public sector — highly indebted. An extended period of deleveraging could constrain domestic demand and dampen Iceland's medium-term growth prospects.
- Iceland was a clear stand-out on measures of GDP and CPI volatility at the 'AA' and 'A' rating levels; it remains slightly less so in the 'BBB' range. Orthodox monetary and fiscal policies struggled to contain macroeconomic imbalances in the run-up to the crisis, reflecting widespread domestic financial indexation, highly volatile international capital flows and an unwieldy financial sector.
- Although interest rates remain high, the ISK has remained weak, forestalling any relaxation of external capital controls. ISK weakness is the main driver of inflation now (10.9% y-o-y in August), although tax increases and hikes in public sector tariffs will also have an impact in coming months.

Commentary

While the economic and financial dislocation that followed the collapse of the financial system has been severe, the dramatic turnaround in the net external balance should help to contain the contraction in real GDP to 10% in 2009, in contrast to declines of up to 18% in some Baltic economies. However, restructuring of private-sector balance sheets promises to be a long and painful process; the ISK remains in unstable equilibrium; and a substantial overhang of speculative foreign capital remains locked in. The crisis has precipitated fundamental changes at the CBI, including the establishment of a monetary policy committee and a new monetary policy framework aimed at rebuilding confidence in monetary policy.

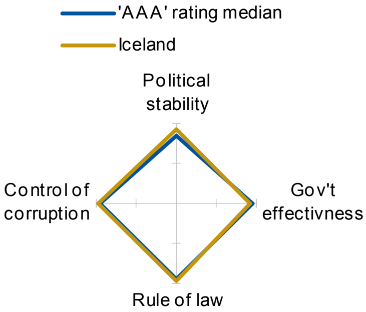
Comparative Analysis: Structural Features

Iceland

	2008						
	Hungary 'BBB'	Croatia 'BBB-'	Iceland 'BBB-'	India 'BBB-'	Egypt 'BB+'	'BBB' median	'BB' median
GNI per capita PPP (USD, latest)	17,210	15,050	33,960	2,740	5,400	9,700	6,640
GDP per capita (USD, mkt exchange rates)	15,361	15,676	52,544	1,002	2,205	8,526	4,527
Human development index (percentile, latest)	80.1	74.0	98.8	28.7	37.5	61.3	50.2
Ease of doing business (percentile, latest)	75.2	45.8	95.0	32.8	29.4	74.9	47.8
Trade openness (CXR and CXP % GDP)	95.3	53.5	57.7	30.4	38.1	n.a.	n.a.
Gross domestic savings (% GDP)	24.6	22.3	21.2	33.8	16.2	23.8	19.1
Gross national savings (% GNP)	15.9	31.8	-30.9	37.5	21.4	25.7	21.6
Gross domestic investment (% GDP)	23.1	30.7	24.1	40.1	22.3	26.6	24.1
Private credit (% GDP)	70.0	64.9	444.1	50.7	39.1	62.7	33.4
BSR indicators	D1	D1	E3	C2	E1	n.a.	n.a.
Bank system CAR	10.4	-	-	12.0	-	n.a.	n.a.
Foreign bank ownership (% assets)	86.4	-	0.0	10.0	-	n.a.	n.a.
Public bank ownership (% assets)	4.0	-	95.0	70.0	-	20.0	17.3
Default record (year cured)	-	-	-	-	-	n.a.	n.a.

Source: Fitch and World Bank

Governance Indicators



Source: World Bank, Fitch

Strengths

- On measures of governance, human development and ease of doing business, Iceland is far superior to 'BBB' medians and exactly aligned with 'AAA' medians. As a member of the European Economic Area, Iceland already applies two-thirds of EU laws, which could expedite a formal bid for EU membership.
- Iceland's income per capita is a clear stand-out in the 'BBB' range — at USD33,960 on a PPP basis in 2007 it was more akin to the 'AAA' median. Taken together with a young population, it has endowed Iceland with well-funded pension funds with net assets equivalent to 120% of GDP at end-May 2009.
- Iceland's rich natural resource endowment — marine products and abundant renewable energy resources that have attracted substantial overseas investment in aluminium smelting — coupled with good quality human capital hold out the prospect of a return to trend growth of 5% over the medium term.
- Iceland has an unblemished sovereign debt service record.

Weaknesses

- The oversized (9x GDP), insufficiently regulated banking system collapsed in disarray in 2008. Although the authorities have managed to preserve the payments system largely intact, the financial system has ceased to perform most conventional banking functions and is in urgent need of restructuring.
- Private-sector credit/GDP stood at 444% in 2008, the most elevated level of any Fitch-rated sovereign, exacerbated by pervasive indexation to inflation and the exchange rate, which compromised the effectiveness of monetary policy.
- A flawed business model, based on unbridled overseas expansion of Icelandic firms and banks funded by extensive borrowing in international capital markets, culminated in a highly negative net international investment position.

Commentary

Structural change will be key to restoring confidence in Iceland's economy. A high priority attaches to restructuring the banks and initiating potentially lengthy corporate and household sector debt workouts. The near demise of the financial sector has denied the economy one its most dynamic sources of growth and it will take time for the more traditional sources of prosperity to absorb the slack. Moreover, while the Icelandic economy has an impressive track record of adjusting to external shocks, this time around it will be labouring under an unprecedented level of sovereign indebtedness well into the next decade.

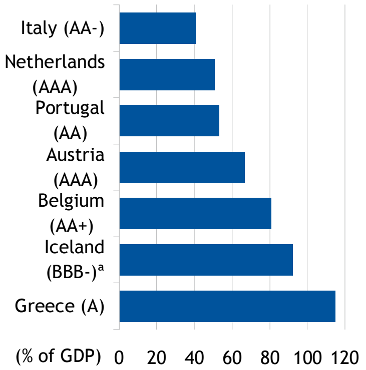
Comparative Analysis: External Finances

Iceland

	2008					Last 10 years	
	Hungary 'BBB'	Croatia 'BBB-'	Iceland 'BBB-'	India 'BBB-'	Egypt 'BB+'	'BBB' median	'BB' median
GXD (% CXR)	147.6	164.6	1,864.3	70.1	75.8	103.5	111.5
GXD (% GDP)	134.5	80.5	677.8	20.3	28.6	50.1	43.5
NXD (% CXR)	98.2	88.8	946.3	-9.2	-23.8	26.1	24.5
NXD (% GDP)	89.5	43.4	344.1	-2.7	-9.0	12.9	10.8
GSXD (% GXD)	25.8	10.7	6.7	23.8	78.6	33.5	48.3
NSXD (% CXR)	12.6	-21.0	54.5	-51.9	8.7	-7.6	12.6
NSXD (% GDP)	11.4	-10.3	19.8	-15.0	3.3	-4.4	4.9
SNFA (USDbn)	-25.8	7.1	-3.3	178.0	-5.9	1.3	-2.3
SNFA (% GDP)	-16.8	10.3	-19.7	15.0	-4.0	5.0	-5.6
Ext. debt service ratio (% CXR)	17.0	27.9	182.6	4.0	6.7	15.6	17.3
Ext. interest service ratio (% CXR)	4.4	3.9	76.7	1.3	1.0	4.0	5.4
Liquidity ratio (latest)	80.1	124.9	50.4	312.9	323.7	129.3	115.3
Current account balance (% GDP)	-8.5	-9.2	-42.7	-2.9	-0.7	-2.8	-2.7
CAB plus net FDI (% GDP)	-6.1	-3.2	3.7	-1.7	3.5	0.4	1.4
Commodity dependence (% CXR, latest)	12.4	-	-	-	-	19.1	25.9
Sovereign net FX debt (% GDP)	4.1	-	-3.8	-15.3	-0.6	-	-

Source: Fitch

Net Sovereign External Debt
2010f



[a] Includes Icesave
Source: Fitch

Strengths

- CBI measures of the real exchange rate indicate that it is at its lowest level since 1969, which should play to Iceland's comparative advantage as a source of low-cost, renewable energy and support export-led growth.
- Providing Iceland remains on-track with the IMF, the bilateral and multilateral loan agreements now in place should bolster international reserves in 2009-2011, helping to stabilise the currency and absorb pent-up speculative capital outflows as exchange controls are lifted.

Weaknesses

- The imposition of capital controls in late November 2008 effectively locked in ISK680bn (USD6bn) of non-resident holdings of short-term ISK assets. Phasing out capital controls and allowing these holdings to unwind remains a major challenge and one that is unlikely to be resolved quickly or easily.
- Iceland's NSXD rose threefold in the wake of the financial crisis to 20% of GDP in 2008 and is set to rise to 55% in 2010 (and 92% including Icesave). With the exception of euro area sovereigns like Greece (114%) and Belgium (80%), no other Fitch-rated sovereign rivals this level of sovereign external indebtedness.

Commentary

Iceland sustained a record current account deficit of 43% of GDP in 2008 as "income credit" collapsed into negative territory, while interest payments remained high. With imports contracting faster than exports, the trade deficit has turned to surplus. Meanwhile, the collapse of the banking system has eliminated the "income deficit" and the current account should be close to balance in 2009-2010.

Imposition of capital controls was deemed essential to preserve sovereign creditworthiness and stop the economy descending into an inflationary/debt spiral. A key aim of the IMF programme has been to stabilise the exchange rate, thereby allowing interest rates to come down, facilitating the gradual lifting of exchange controls. However, the ISK has remained weak, notwithstanding a trade surplus, reflecting heavy outflows of permissible debt service payments. Forthcoming disbursements of IMF and Nordic funds should move Iceland a step closer to lifting exchange controls and normalising financial relations with the outside world.

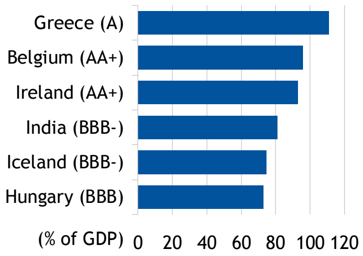
Comparative Analysis: Public Finances

Iceland

	2008					Last 10 years	
	Hungary 'BBB'	Croatia 'BBB-'	Iceland 'BBB-'	India 'BBB-'	Egypt 'BB+'	'BBB' median	'BB' median
Budget balance (% GDP)	-3.4	-1.1	-1.2	-10.6	-7.5	-2.3	-2.3
Primary balance (% GDP)	0.8	0.5	2.0	-5.2	-1.9	0.3	0.9
Revenues and grants (% GDP)	46.5	39.8	43.4	20.3	27.8	31.6	23.8
Volatility of revenues/GDP ratio	3.2	2.2	5.5	8.8	6.2	6.5	6.5
Interest payments (% revenue)	4.2	4.1	7.3	26.3	22.8	7.4	12.0
Debt (% revenue)	157.1	84.4	161.8	386.3	249.4	118.7	190.5
Debt (% GDP)	73.0	33.6	70.3	78.5	69.2	35.1	41.7
Net debt (% GDP)	66.4	27.6	31.4	76.4	50.0	26.3	34.5
FC debt (% total debt)	35.8	0.0	25.2	7.6	26.8	46.5	66.3
CG debt maturities (% GDP)	11.9	7.2	9.1	7.3	14.7	6.1	5.8
Average duration of CG debt (years)	3.0	-	-	-	2.2	4.5	3.0

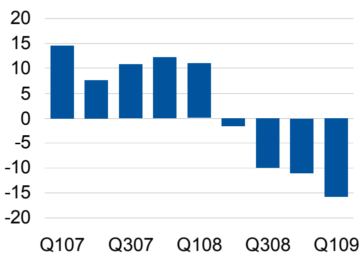
Source: Fitch

Net General Government Debt
2010f



Source: Fitch

General Government Financial Balance
(% of Revenue)



Source: Statistics Iceland

Strengths

- Sustained general government surpluses in 2004-2007 reduced public debt to 29% of GDP by end-2007, while the sovereign's public foreign-currency assets and liabilities were evenly matched, putting the sovereign in a relatively strong starting position to assume new liabilities.
- Sovereign debt service has been maintained in the face of unprecedented financial sector distress. All sovereign external liabilities were repaid on time and in full in 2008; external public debt service is negligible in 2009-2010. Domestically, the public debt market continues to function normally with active participation from pension funds and non-residents unable to repatriate funds.
- Strong fiscal intent. The authorities have drawn up a comprehensive programme of medium-term fiscal consolidation that envisages robust primary surpluses from 2011 and headline central government surpluses from 2013. The burden of adjustment will initially fall on taxation: Iceland has a broad tax base compared to the 'BBB' median, with scope for raising income taxes and VAT.

Weaknesses

- The collapse of the financial sector, coupled with the collateral damage to the real economy, has materially impaired sovereign creditworthiness. Public debt rose sharply to 70% in the final quarter of 2008, still within 'BBB' tolerances, while a general government deficit of 14% of GDP in 2009 will mirror the experiences of high-grade sovereigns like the US and the UK.
- With the full cost of the crisis set to crystallise on the public sector's balance sheet in 2009-2010, Fitch estimates Iceland's gross GGD will rise to 114% of GDP (excluding Icesave). With the exception of Japan and some euro zone members (eg Greece, Belgium and Italy), this level of public indebtedness would normally be associated with countries in low sub-investment grade.
- A key mitigating factor will be mounting general government deposits of some 40% of GDP, which should contain net GGD to a more manageable 75% of GDP by 2010. This level of net indebtedness would be comparable to Hungary (73%) and India (80%), rating peers with significantly divergent levels of per capita income from Iceland. Even so, net GGD/revenue will remain high at 180%-190%, while interest payments/revenue of 18% will far exceed 'BBB' and 'BB' medians.
- The risk of additional contingent liabilities migrating to the public sector's balance sheet remains high, while rising public external debt means that the government is much more exposed to exchange rate risk than it was before the crisis.

Fiscal Accounts Summary

(% of GDP)	2006	2007	2008	2009f	2010f	2011f
General government						
Revenue	**48.0**	**47.9**	**43.4**	**39.5**	**39.5**	**40.1**
Expenditure	**41.6**	**42.5**	**44.6**	**53.6**	**49.3**	**45.6**
O/w interest payments	2.2	2.6	3.2	6.7	6.9	7.1
Primary balance	8.5	8.0	2.0	-7.4	-2.8	1.5
Overall balance	**6.3**	**5.4**	**-1.2**	**-14.1**	**-9.8**	**-5.5**
General government debt	**30.1**	**28.7**	**70.3**	**109.5**	**114.1**	**111.7**
% of general government revenue	62.9	60.0	161.8	277.4	288.8	279.0
General government deposits	17.7	17.0	20.2	37.2	41.8	37.1
Net general government debt	11.8	12.8	31.4	72.6	74.8	77.2
Central government						
Revenue	**39.2**	**36.3**	**27.1**	**28.4**	**29.4**	**30.3**
O/w grants	0.1	0.1	0.1	0.1	0.1	0.1
Expenditure and net lending	**30.0**	**31.1**	**33.0**	**41.0**	**36.9**	**33.6**
O/w current expenditure and transfers	28.3	28.0				
- Interest	1.7	1.8	2.7	6.0	6.1	6.1
O/w capital expenditure	1.0	0.6				
Current balance	7.0	7.2				
Primary balance	7.0	5.9	2.0	-6.7	-1.5	2.9
Overall balance	**5.3**	**4.1**	**-0.7**	**-12.7**	**-7.6**	**-3.3**
Central government debt	24.8	24.0	63.6	125.2	126.5	106.1
% of central government revenues	63.2	66.0	234.2	441.4	430.5	350.5
Central government debt (ISKbn)	**289.9**	**312.1**	**931.3**	**-**	**-**	**-**
By residency of holder						
Domestic	68.0	73.2	218.4	-	-	-
Foreign	221.9	238.9	712.9	-	-	-
By place of issue						
Domestic	114.7	157.6	613.7	-	-	-
Foreign	175.2	154.5	317.6	-	-	-
By currency denomination						
Local currency	114.0	157.7	613.3	-	-	-
Foreign currency	154.4	154.4	318.0	-	-	-
In USD equivalent (eop exchange rate)	2.2	2.5	2.6	-	-	-
By maturity						
Less than 12 months (residual maturity)	52.2	40.9	133.3	-	-	-
Average maturity (years)	4.2	4.2		-	-	-
Average duration (years)	3.8	3.8		-	-	-
Memo						
Non-financial public-sector balance (% GDP)	-	-	-	-	-	-
Net non-financial public-sector debt (% GDP)	-	-	-	-	-	-
Nominal GDP (ISKbn)	1,167.9	1,301.4	1,465.1	1,402.0	1,476.2	1,591.3

Source: Ministry of Finance and Fitch estimates and forecasts

External Debt and Assets

(USDbn)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross external debt	**7.1**	**8.6**	**9.1**	**11.1**	**16.2**	**26.9**	**45.6**	**71.7**	**113.9**	**112.2**
% of GDP	81.8	99.6	115.2	124.9	148.0	203.0	279.9	430.6	560.8	677.8
% of CXR	232.3	278.9	277.3	300.7	391.1	537.3	689.5	906.5	944.3	1,864.3
By maturity										
Medium- and long-term	6.0	7.3	7.6	8.7	12.8	22.0	38.5	59.8	73.2	71.1
Short-term	1.1	1.4	1.5	2.4	3.5	4.9	7.1	11.9	40.7	41.2
% of total debt	16.1	16.1	17.0	21.4	21.4	18.1	15.5	16.6	35.7	36.7
By debtor										
Monetary authorities	**0.1**	**0.2**	**0.1**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
General government	**2.0**	**2.2**	**2.5**	**3.0**	**3.1**	**3.5**	**2.4**	**3.4**	**3.9**	**7.5**
O/w central government	1.6	1.7	2.0	2.3	2.5	2.9	1.8	3.1	3.9	5.9
Banks	**2.2**	**4.2**	**4.1**	**5.6**	**10.2**	**20.0**	**37.9**	**59.3**	**96.7**	**91.5**
Other sectors	**2.9**	**2.3**	**2.5**	**2.5**	**2.9**	**3.4**	**5.3**	**8.9**	**13.3**	**13.2**
Gross external assets (non-equity)	**1.4**	**1.1**	**1.6**	**2.2**	**5.1**	**9.6**	**21.7**	**39.0**	**65.3**	**55.3**
International reserves, incl. gold	0.5	0.4	0.4	0.5	0.8	1.1	1.1	2.3	2.6	3.6
Other sovereign assets nes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	0.2	0.3	0.3	0.6	1.6	2.9	8.5	18.6	24.0	0.0
Other sector foreign assets	0.7	0.5	0.8	0.6	0.7	1.3	3.0	4.1	6.8	6.1
Net external debt	**5.7**	**7.5**	**7.5**	**8.9**	**11.2**	**17.2**	**24.0**	**32.6**	**48.7**	**57.0**
% of GDP	65.5	86.7	95.0	100.1	102.0	130.3	147.0	196.0	239.5	344.1
% of CXR	185.8	242.6	228.7	241.1	269.4	344.9	362.2	412.6	403.2	946.3
Net sovereign external debt	1.5	1.8	2.1	2.6	2.3	2.4	1.4	1.1	1.3	3.3
% of GDP	16.8	20.3	26.8	28.8	20.9	18.2	8.4	6.4	6.4	19.8
Net bank external debt	2.0	3.9	3.6	4.5	6.6	12.7	20.2	26.8	40.9	46.5
Net other external debt	2.2	1.9	1.8	1.9	2.3	2.1	2.4	4.8	6.5	7.2
Net international investment position	**-4.2**	**-5.3**	**-5.8**	**-7.0**	**-7.4**	**-10.3**	**-13.6**	**-19.4**	**-25.5**	**-53.3**
% of GDP	-47.9	-61.2	-73.3	-78.3	-67.6	-77.6	-83.6	-116.4	-125.8	-321.6
Sovereign net foreign assets	**-1.5**	**-1.8**	**-2.1**	**-2.6**	**-2.3**	**-2.4**	**-1.4**	**-1.0**	**-1.3**	**-3.3**
% of GDP	-16.8	-20.3	-26.8	-28.7	-20.8	-18.1	-8.3	-6.3	-6.2	-19.7
Debt service (principal & interest)	**0.9**	**1.3**	**1.7**	**1.7**	**2.0**	**2.3**	**4.6**	**5.8**	**14.4**	**11.0**
Debt service (% of CXR)	28.2	40.9	50.7	46.1	47.9	45.9	69.5	73.0	119.1	182.6
Interest (% of CXR)	9.3	11.8	12.9	10.1	9.2	10.1	14.7	30.0	36.5	76.7
Liquidity ratio (%)	31.8	28.4	21.7	20.6	22.9	40.5	39.9	71.2	77.7	50.4
Net sovereign FX debt (% of GDP)	15.8	16.6	22.6	24.0	17.3	12.5	3.8	2.4	1.0	-3.8
Memo										
Nominal GDP	8.7	8.7	7.9	8.9	11.0	13.2	16.3	16.6	20.3	16.6
Gross sovereign external debt										
Inter-company loans	0.1	0.1	0.1	0.1	0.3	0.5	0.9	1.7	1.9	0.9

Sources: NBP, IMF, World Bank and Fitch estimates and forecasts

Balance of Payments

(USDbn)	2006	2007	2008	2009f	2010f	2011f
Current account balance	**-4.2**	**-3.2**	**-7.1**	**-0.3**	**-0.1**	**0.5**
% of GDP	-25.4	-15.6	-42.7	-3.0	-0.9	3.6
% of CXR	-53.6	-26.3	-117.4	-5.5	-1.7	7.0
Trade balance	**-2.2**	**-1.4**	**-0.1**	**0.3**	**0.3**	**0.6**
Exports, fob	3.5	4.8	5.3	3.7	4.0	4.4
Imports, fob	5.7	6.2	5.4	3.4	3.7	3.9
Services, net	**-0.7**	**-0.7**	**-0.3**	**0.4**	**0.5**	**0.6**
Services, credit	1.8	2.3	2.1	2.1	2.2	2.5
Services, debit	2.6	2.9	2.4	1.7	1.8	1.9
Income, net	**-1.2**	**-1.0**	**-6.6**	**-1.0**	**-0.9**	**-0.6**
Income, credit	2.6	5.0	-1.3	0.5	0.5	0.5
Income, debit	3.8	6.1	5.3	1.5	1.4	1.1
O/w: Interest payments	2.4	4.4	4.6	1.2	1.1	0.8
Current transfers, net	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memo						
Non-debt-creating inflows (net)	-0.8	-10.9	6.1	0.1	0.3	0.5
O/w equity FDI	-0.8	-8.6	7.7	0.1	0.3	0.5
O/w portfolio equity	0.0	-2.4	-1.6	0.0	0.0	0.0
O/w other	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves (-= increase)	-1.2	-0.1	-1.1	0.2	-0.2	0.6
Gross external financing requirement	7.6	13.1	13.4	3.0	2.5	1.8
Stock of international reserves, incl. gold	2.3	2.6	3.5	3.3	3.5	2.9

Sources: IMF and Fitch estimates and forecasts