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Analysis

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Iceland

Macroeconomic Performance

Iceland is an advanced industrialized country with a very high per capita GDP (estimated at $41,000 this year) and well-developed infrastructure. The economy's small size sets it apart from many of its Aaa-rated peers as does its propensity for wide gyrations matched with an unusual degree of flexibility. The country's other distinguishing characteristic is its sizeable level of net external indebtedness, eclipsed only by New Zealand in the industrialized world. Prior to the mid-1990's, the dominance of the fisheries sector in GDP and exports was the principal cause of economic volatility, but the fisheries quota system, which began to be implemented twenty years ago and is continuously refined, has smoothed the sector's performance considerably. During the last decade, the fluctuations in Iceland's macroeconomic conditions have continued, but now they are driven mainly by foreign investment cycles.

The most recent foreign investment sequence, during the second half of the 1990's, involved the expansion and construction of aluminum smelters. Power-intensive projects such as these are ideally suited to Iceland because of the availability of low-cost and environmentally-friendly sources of energy, both hydro and geo-thermal. Given the projects' scale and exacerbated by liberalization of short-term capital controls, a severe overheating of the economy occurred, leading to extraordinarily large external imbalances. The exchange rate then depreciated steeply and inflation approached double digits. However, the hard landing that looked inevitable was avoided with a combination of skilful policy choices by the monetary authorities and the promise of additional projects to come. In the end, the recession was mild and short-lived.

A new investment cycle got underway last year. The scale of these projects is even more massive, portending an extended boom that risks creating even larger imbalances than the last time. The sheer size of the investments — at an estimated total of around US$3 billion, they will be roughly three times as large — is the main reason for this worry. Furthermore, external imbalances are emerging more rapidly than in the 1990's, raising concerns that the planned tightening of fiscal policy has been delayed too long. Then again, the Central Bank already raised interest rates twice in the past month: by 20 basis points on May 6 and another 25 bps on June 1. The remaining output gap is likely to disappear quickly and, according to the Central Bank, turn "substantially positive" by 2006.

Rapid Economic Growth During Projects' Construction Phase

Work on the largest of the new projects, the construction of the Karahnjukar dam and power station in support of Alcoa's new aluminum smelter in eastern Iceland, is well underway and on time. The doubling of capacity of the Nordural smelter near Reykjavik was more recently approved, but work has already started as well. These projects' total cost is estimated at IKR 235 billion (about $3 billion at current exchange rates as mentioned above). Roughly one-third of last year's $0.6 billion current account deficit is attributed to imports for the projects, an amount and proportion that will rise sharply in the next three years. The National Power Company (Landsvirkjun) plans to take on $1.1 billion in foreign debt just to finance the dam and hydroelectric plant for the Alcoa smelter, and more will be needed for the other plants.

Official forecasts from both the Ministry of Finance (MOF) and the Central Bank call for average growth to exceed 4% from 2004 through 2006. The MOF also predicts 2¾% yearly growth in the subsequent four years. Moody's believes that growth could even surpass these estimates, especially in the earlier period, based on recent trends. Thankfully, quite a bit of slack is present in the labor market now, with the unemployment rate having remained relatively high at about 3.5%. A larger share of the workers for the construction phase of the projects is coming from abroad than was expected, so although the jobless rate has not improved, at least wage pressures have not emerged.

Rapid Takeoff to the Current Cycle

The starting point for this investment cycle is disquieting. GDP growth in 2003 was 4%, more than twice as rapid as had been projected earlier in the year. Signs of emerging economic distortions are already present, such as with escalating asset prices and the current account deficit, which widened sharply to 5.6% of GDP last year from near zero the year before. The net accumulation of external debt by the commercial banks was substantial, a trend that continued in the first quarter of this year as well.

Particularly notable has been the fast pace of deposit money banks' credit expansion, much of which the banks have funded in foreign currency to take advantage of low world interest rates and in the expectation that the currency will not depreciate. The most recent data available (April 2004) show commercial bank lending up by more than one-third year-over-year, with loans in foreign currency nearly tripling (but from a low base) and domestic lending up by 22%.

Until recently, consumer prices had stayed in line with the Central Bank's 2.5% target, mainly thanks to strong productivity growth and falling non-oil import prices. During the last three months, however, the underlying inflation rate has been edging up quite rapidly, with the year-over-year rate reaching 3.2% in May. Roughly two-thirds of the pressure has been from domestic sources, specifically housing prices and services, with the rest coming from an upturn in import costs because of a recently weaker króna and higher oil prices.

Monetary Policy Tightening Begins

Assuming unchanged policies, the Central Bank inflation forecast published on June 1 predicts that inflation will exceed the 2.5% target, perhaps by a considerable margin, in the near to medium term. The Central Bank's 20 bps policy rate increase in May was its first change since the last round of loosening ended in February 2003, and the revised inflation forecast and second rate hike followed within a month. Depending upon whether recent inflationary impulses are sustained, Moody's believes that additional interest rate hikes could be faster and larger than those implemented by the ECB and the Federal Reserve, widening Iceland's already sizeable interest rate gap with Europe and the US. Prompt and decisive restraint of government spending will be crucial to avoid an overreliance on monetary policy, which anyway might be rather ineffective in restraining credit growth given the Icelandic banks' access to foreign funding.

One good piece of news on the price stability front was the outcome of the March wage negotiations with two large union groups, which is likely to set the basis for other agreements economy-wide. The settlement covers a longer time period, four rather than three years, which is advantageous given the length of this investment cycle.[1]

1. An inflation trigger clause was inserted, similar to the last agreement, which gives workers two opportunities to reevaluate and even revoke the terms. A more complete description of the trigger and other elements of the wage agreement can be found in chapter 1 of the March 2004 Central Bank Monetary Bulletin or section 8 of the Ministry of Finance's May 2004 Economic Outlook.

Financial Stability Assessment Improves, but Outsized Foreign Borrowing/Lending Opens Eyes

In line with the critical IMF Financial System Stability Assessment (FSSA) in 2001, the government and the monetary authorities aggressively moved on the measures recommended by the IMF, in particular by strengthening supervision and regulation of the commercial banking system. Banks now are better capitalized, they practice more transparent reporting, and they follow stricter loan classification guidelines. They are also much more aware of asset quality/provisioning issues and short-term external funding risks. As a result, the second FSSA in 2003 was far more sanguine about the system's stability.

A dramatic rise in foreign currency borrowing by banks in the past year has prompted renewed concerns about financial stability, leading the Central Bank and Financial Supervisory Authority to admonish banks to slow their borrowing and to extend maturities. The banks are heeding this advice insofar as lengthening the maturity structure on new borrowings and refinancings, however, the growth of foreign credit is still rising extremely rapidly.

The sudden leap in banks' external borrowing seems to be a consequence of competition for business among the country's three commercial banks, which are now fully privatized. Ironically, the expansion of lending is not focused on the new projects. The money raised is to a significant extent being used to finance mergers and acquisitions and leveraged buyout activities, arguably risky operations even if the borrowers of record are organically hedged. The scale of the borrowing and onlending, it is argued, has grown substantially because some companies in Iceland are themselves reaching a size disproportionate to the country's economy. The banks are also branching out and lending to companies abroad in order to diversify their asset base, having become more capable of competing with larger foreign banks.

As could be expected with such a recent surge in lending, the banks are showing record profits. With the consolidation in Icelandic industry, exposure concentration is increasing and large exposures are becoming more apparent, with the regulatory maximum being 25% of an individual bank´s equity. The Financial Supervisory Authority is actively involved in assessing the risks posed by the rapidly changing circumstances, and has recently been granted the authority to ask banks to raise capital beyond BIS minimum norms. In addition, newly developed risk assessment systems are applied by the authority in order to address possible vulnerabilities associated with such scenarios. Over time, the increasing diversification of the economy should also mitigate these risks.

Non-performing loans have continued to grow, but new lending growth has been so substantial that the NPL ratios look better than before. The strengthening of the króna in the past two years threatens to further expand nominal NPL's since exporters tend to be the largest bank customers. The situation could be aggravated by falling fish prices and lower catch volumes. Finally, loans typically take a year or two to season before potential problems emerge. In Iceland's case, though, a crucial offsetting factor is that the economy is at the start of a long upward trend, during which time most firms should perform quite well.

An important consideration is that Icelandic banks' problem loan ratios tend to be exaggerated because of their inability to be involved in the retail mortgage market, which is the safest lending channel. In Iceland, this business belongs almost exclusively to the Housing Finance Fund, which provides means-tested loans at favorable terms, and which also benefits from a government guarantee that reduces its cost of funding. Participation in this market would provide banks with a stable base portfolio, and would have the added advantage of removing a sizeable contingent liability from the government's books. Thus far, however, this business has been difficult for the banks to enter.

Because of the inherent riskiness of bank lending in this small, concentrated economy along with other concerns outlined in Moody's Banking System Outlook (see link on last page of this report), Moody's average financial strength rating for Icelandic banks is "C" and bank bond ratings are in the "A" category, far below the Aaa government rating.

Corporate and Household Debt Levels Growing

Icelandic corporate indebtedness is at an historical peak, but companies remain quite profitable in the aggregate. The same is true for households, whose debt has doubled to nearly 100% of GDP over the past decade after financial liberalization, or 180% of disposable income, but which have accumulated steep real incomes growth (nine annual consecutive increases through 2003) and pension assets. The level is partly a reflection of Iceland's relatively young and growing population and the large proportion of home ownership in the country. Then again, although these factors explain high gross debt ratios, caution also needs to be exercised when netting out the value of assets against the private sector's debt. The rapid rise in housing and equity prices in the past two years increases the risk of a sudden downward adjustment in both fixed and financial asset prices.

Political/Social Developments

Iceland is characterized by a consensus-based society that has demonstrated its willingness to make financially painful decisions when necessary to preserve the country's universal wellbeing. Icelanders share similar values on such issues as environmental conservation and the maintenance of the social welfare network. Although party differences were unusually emphasized in the 2003 election campaign and now once again in the recent raucous debate over the mass media bill in parliament, in fact the ideological differences between the various Icelandic political parties could be described as relatively minimal, even in a European context. A common perspective on economic and social policy has provided the basis for Iceland's success to date in achieving sustainable economic development in spite (or perhaps because) of its narrow resource base and geographical isolation. Incomes are higher and more evenly distributed than the OECD average and the robust growth of the last decade increased that margin from about 10% to above 25% now.

Government Leadership Set To Change

A coalition government comprised of the Independence Party (IP) and the Progressive Party (PP) has served for the past nine years. In the May 2003 national elections, the IP won 34% of the vote compared to the Social Democratic Alliance's 31%, and the PP, 17%. The IP and PP leaders agreed to a somewhat unusual arrangement when forming the new coalition government at that time: current Prime Minister David Oddsson (IP), and the head of the PP, Foreign Minister Halldor Asgrimsson, agreed to split the term, with Mr. Asgrimsson scheduled to take over the post of prime minister in September 2004.

The general consensus seems to be that an Asgrimsson-led government will not change the overall direction of economic policy. Indeed, Moody's views the cabinet changes as an opportunity for government leaders to reassert their commitment to prudent fiscal policies, particularly in light of the pressures already emerging on the external finances and inflation. Although we expect that the new prime minister would want to put his own imprint on policy, recent public discussions lead us to conclude that he is committed to the restrictive fiscal stance that has been promised and in fact, might tighten more than currently envisioned.

Government Finances and Debt

General government finances in Iceland are relatively strong, reflecting modest direct debt, high labor force participation rates, low unemployment, a young population, a well-funded pension system, and negligible defense expenditures. Iceland's general government debt was equivalent to 42% of GDP and 90% of annual revenues at the end of 2003.

Privatization proceeds have helped the authorities to retire debt in recent years and have also been used to fund future pension liabilities, although the debt ratio has not fallen back to its level prior to the 2000-2001 devaluation in spite of the subsequent appreciation of the króna and substantial growth. Iceland's debt ratios compare favorably with other highly-rated advanced industrial countries, for which the mean debt ratios are 60% of GDP and 153% of government revenues. On the other hand, the government has extensive contingent liabilities in the form of implicit and deficiency guarantees of public company obligations and the Housing Finance Fund.

During the last investment-led cycle in the late 1990's, the fiscal balance moved into surplus and the structural surplus also rose. Still, the government increased its spending rapidly in the period, thereby contributing to the overheating of the economy. That expenditure momentum contributed to the emergence of deficits once the projects were completed and the economy slowed. Government finance officials have vowed to exercise more restraint on spending during the new investment round, recognizing that the scale of the new projects will present a significantly greater challenge for demand management. Until now, Moody's has been somewhat skeptical about whether the fiscal stance will be sufficiently tight on the basis of both the 1990's experience and the promises of a new round of tax cuts to come over the next several years. On the other hand, the latest parliamentary debates over those tax cuts are more encouraging; they reveal that policymakers have a greater realization of the risks posed by fiscal laxity than was the case historically.

Debt Composition/Guarantees Set Iceland Apart In Developed World

About 60% of general government debt is denominated in foreign currency, so the public finances are vulnerable to a certain degree of currency risk. This situation is quite different from most advanced industrialized countries whose governments issue debt primarily or exclusively in local currency. (Then again, a larger proportion of European countries' debt was denominated in foreign currency prior to the advent of the euro.) More problematic is the private sector's heavy foreign indebtedness, which is less than fully hedged and which is uncomfortably short-term in duration.

The government's direct debt burden is very manageable, which is an important element in assessing its Aaa rating. Another consideration, however, is the contingent liabilities represented by state companies' debts such as Landsvirkjun and those of the Housing Finance Fund, which amounted to another 58% of GDP at the end of 2002. In addition to the more obvious contingent debts, the sovereign rating for any country must take into account the implicit liabilities represented by deposits in the banking system. Moody's considers all three commercial banks as "too big to fail," a concept that is not affected by the banks having been fully privatized. This concept means that, in the extremely remote chance it becomes necessary, Moody's believes that the government would step in to protect depositors.

Given this background as to the substantial potential claims on its resources, the government's low direct debt is an important consideration. In Moody's judgment, the Aaa rating could hold even in the unlikely event that the government needs to assume direct responsibility to service these additional obligations.

Public Finances Protected Against Age-related Spending Pressures

Public finances in Iceland are relatively more insulated against age-related spending pressures, particularly compared to other advanced industrial countries in Europe and elsewhere. Iceland's triple-pillared pension systems are heavily funded against rising future liabilities. The revenue base is further protected because its labor force boasts very high participation rates (the highest in the OECD) and unusually long working lives and workweeks. Iceland's population is also young and relatively fast-growing, which helps to militate against many of the issues arising elsewhere and to strengthen the structural soundness of the pension system over the long term. Pension fund assets have grown rapidly and were equivalent to approximately IKr 850 billion at the end of March 2004, which would be equivalent to nearly 100% of projected GDP this year.

Spending Overruns Have Led to Deficits

The general government surpluses of 1998-2001 turned to deficits averaging 1.3% of GDP in 2002 and 2003. Local governments typically run small deficits, but the central government budget has been in the red as well these last two years. Falling revenues represent a relatively small part of the explanation, especially considering that growth came in at 4% last year. The main problem is fast-rising spending, especially consumption. The general government spending ratio to GDP has climbed by seven percentage points since 1997 to 48.4% of GDP, high even by the standards of its fellow Nordics after taking into account the relatively less generous social welfare system.

Public consumption in Iceland is among the highest in the OECD at over 25% of GDP, due mainly to wage and salary costs. Wage growth in the public sector has outpaced that of the private sector in recent years, albeit from a lower base. Expenditure overruns have averaged close to 10% of budgeted expenditures during the past several years, both during the 1990's investment cycle and after. The rapid expenditure growth last year was related to the acceleration of capital investments, which the government thought would be necessary to jump-start the economy after the 2002 recession. In retrospect given the growth outturn, the extra spending was probably gratuitous.

Deficits to Disappear, at least Temporarily

As part of its effort to be more transparent about fiscal policy, the government introduced a medium-term spending program when it presented the 2004 budget. This framework should be helpful in imposing more discipline on the budget process if the experience of other countries is repeated. The timing of its introduction is appropriate as well, in light of the long expansion cycle underway.

Faster-paced growth should boost revenues considerably over the near to medium term, and the government started cutting back on investment spending this year in order to avoid adding to demand pressures already emerging. In light of these trends, the Finance Ministry's new medium-term forecast predicts that the general government finances will return to the black in 2004. The forecast calls for surpluses of around 1.2% of GDP in the following two years. Although these would seem rather small surpluses in cyclically-adjusted terms, the forecast also takes into account ISK 20 billion in tax cuts to be implemented over the period through 2007.

The discussions among policymakers in advance of next year's budget formulation have increased attention on those areas of the budget, such as universities and hospitals, where spending has increased substantially in recent years. Moody's is cautiously optimistic that such debates could lead to more judicious budget allocations than presently assumed, especially should the tax cuts go forward. Such restraint would help defuse some of the demand pressures and associated macroeconomic distortions, and allow for interest rates to remain lower than would otherwise be the case.

External Balances and the International Investment Position

Iceland's small size and openness, its relatively narrow economic base, and its foreign indebtedness render it susceptible to unusually large fluctuations by industrial country standards, requiring a high degree of policy caution and coordination among fiscal and monetary authorities in order to manage and contain financial risks. This susceptibility will become even more pronounced during the investment cycle when additional foreign debt will be taken on.

Moody's is concerned about the outcome of the current growth cycle because of the platform from which it is taking off — a conjuncture with macroeconomic disequilibria already being manifested. These distortions will be exacerbated should the upturn coincide with continued or deepening currency overvaluation, particularly given the length of the cycle. By contrast, the soft landing achieved in 2001-2002 derived in large part from the decision to adopt inflation targeting and to allow the exchange rate to float. The resulting depreciation boosted net exports while domestic demand was compressed, smoothing the outcome. Equally important was the subsequent recovery of the króna after the new projects were approved, which helped bring inflation back down and avoided a wage-price spiral from developing.

In spite of these concerns, Moody's outlook on Iceland's Aaa sovereign ceiling and government debt ratings is stable. Among the reasons are low government debt, improved external liquidity — both liquid foreign exchange reserves and standby credit — and the country's ready access to external finance. In addition, the Icelandic economy has proven itself to be unusually flexible in response to its historic fluctuations, and we expect this pattern to repeat itself.

Reserves are Multiplying and External Assets are Building

The steady inflows of project and non-project related capital along with the Central Bank's concerted policy to amass reserves have allowed for the more than doubling of official reserves $870 million as of March 2004. Then again, this level of reserves is low when measured against short-term external debt of about $3.8 billion.

Given available statistics from the end of 2003, it would appear that the commercial banks and other Icelandic companies have built up their liquid external assets as well as their debt. The banking sector's net international asset position has improved to a negative $2.1 billion at the end of September 2003 from -$2.5 billion at the end of 2002. Still, Moody's suspects that the extra liquidity was temporary, or essentially a matter of timing.

Diversification Enhances Economic Growth/Flexibility

In Moody's opinion, the diversification of the Icelandic economy preceded the advent of the power-intensive project construction in the mid-1990's. By increasing the variety of harvested marine products and broadening export markets, the Icelandic economy has been increasingly buffered against swings in demand and the vagaries of catches, especially since the codification of the fisheries management system in 1990. The recent weakness in fish prices has reverberated, although the problem would have been more manageable but for the currency's strength.

Economic diversification into areas other than fisheries is not a cure for the economy's wide swings, given the scale of the projects undertaken relative to the size of the economy. Still, the development of the aluminum sector does provide another solid basis for growth and further enhances the economy's flexibility. The share of aluminum in total merchandise exports is projected to rise from one-quarter to above one-third, which will mean that the share of marine exports is expected to drop from 60% to 45% by 2007 despite steady nominal increases. Another fast-growing area is tourism, which is contributing to both employment creation and exports, and which seems relatively impervious to exchange rate movements for a variety of reasons. Other industries have also emerged or expanded, which could further contribute, such as other manufacturing, pharmaceuticals, and services.

External Disequilibria Pose Risks

In the year to December 2003, gross external debt had already swelled from $11 billion to $16 billion, compared to nominal GDP of about $10.5 billion. Most of the increase originated from commercial bank borrowings, which almost doubled from $5.7 billion to $10.2 billion — not from project-related finance. Commercial bank external borrowings constitute nearly two-thirds of the country's total external debt, whereas the corporate and general government sectors each account for less than 20%. At -67% of GDP by the end of 2003, Iceland's net IIP deficit is the highest among developed countries with the exception of New Zealand at 85%.

Iceland is set to register current account deficits well in excess of 10% of GDP, possibly for consecutive years, during the peak of the current investment cycle through 2006. The latest Ministry of Finance forecast predicts that the deficits will retreat subsequently to 4% of GDP; Moody's fears that this expectation may be unduly sanguine. Regardless of the precise results, the further accumulation of external debt implied by these numbers suggests a rapid deterioration in Iceland's net international investment position (IIP) going forward. The Central Bank's latest forecast, which is based on current interest rates and includes tax cuts worth 2½% of GDP as committed in the government's medium-term program, predicts that the net international investment position will widen from -67% of GDP at the end of 2003 to -85% by 2006.

The amount of external debt being accumulated poses some refinancing risks, essentially for the private sector and the banks but not the government, in Moody's opinion. The situation could be aggravated in the event of a large devaluation or a sudden and severe economic slowdown, which increases the importance of continuing to lengthen the foreign debt maturity structure and for policymakers to maintain a restrictive fiscal and monetary stance. In the absence of such adjustments, Moody's is concerned that the eventual correction needed to reestablish macroeconomic equilibrium could be more painful than the soft landing of 2001-2002 despite the economy's proven flexibility.

Rating History

Republic of Iceland

	Foreign Currency Bonds and Notes		Foreign Currency Bank Deposits		Local Currency	
Action	Long-term	Short-term	Long-term	Short-term	Gov't Bonds	Date
Rating Assigned	A2	—	—	—	—	24-May-89
Rating Assigned	—	P-1	—	—	—	30-Oct-90
Rating Assigned	—	—	A2	P-1	—	2-Oct-95
Rating Upgraded	A1	—	A1	—	—	24-Jun-96
Rating Upgraded	Aa3	—	Aa3	—	—	30-Jul-97
Rating Assigned	—	—	—	—	Aaa	30-Jul-97
Rating Upgraded	Aaa	—	Aaa	—	—	21-Oct-02

Related Research

Banking System Outlook:

Banking System Outlook: Iceland, May 2003 (78039)

Special Comments:

Moody's Sovereign Ratings: A Ratings Guide, March 1999 (43788)

A Quantitative Model for Local Currency Government Bond Ratings, September 2003 (79404)

A Quantitative Model for Foreign Currency Government Bond Ratings, February, 2004 (81176)

Rating Methodology:

Revised Country Ceiling Policy, June 2001 (67679)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Iceland

	1998	1999	2000	2001	2002	2003	2004F	2005F
Economic Structure and Performance								
GDP Nominal (US$ Mil.)	7,980	8,376	8,373	7,603	8,493	10,513	11,918	12,533
Population (Mil.)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
GDP per capita (US$)	29,126	30,182	29,903	26,962	29,905	36,377	40,523	41,877
GDP per capita (PPP basis, US$)	25,015	26,158	28,553	29,715	29,614	—	—	—
Nominal GDP (% change, local currency)	10.7	6.9	8.5	12.5	5.1	3.6	7.9	8.0
Real GDP (% change)	4.5	3.6	5.5	2.9	-0.5	4.0	5.5	6.0
Inflation Rate (Consumer Price Index, % change, Dec/Dec)	1.3	5.8	3.5	9.4	1.4	2.4	2.6	2.9
Unemployment Rate (%)	2.8	1.9	1.3	1.4	2.5	3.4	3.4	2.8
Gross Investment/GDP	24.6	22.3	24.1	21.7	18.7	21.5	23.9	26.9
Gross Domestic Savings/GDP	20.1	17.4	17.0	21.2	20.7	18.1	18.3	19.1
Nominal Exports of G & S (% change)	6.7	2.0	0.6	5.8	8.1	10.1	13.1	3.9
Nominal Imports of G & S (% change)	22.3	3.1	6.3	-11.0	1.3	27.1	21.4	8.1
Real Exports of G & S (% change)	2.4	4.8	5.0	7.9	3.6	-0.7	5.0	4.0
Real Imports of G & S (% change)	23.3	5.5	8.0	-9.0	-2.6	9.7	15.0	10.0
Net Exports of G & S/GDP	-4.6	-4.8	-7.1	-0.5	2.0	-3.4	-6.2	-7.8
Openness of the Economy[1]	76.5	74.8	77.5	82.5	77.3	73.9	76.6	77.3
Government Finance								
Gen. Gov. Revenue/GDP	42.8	45.9	45.7	44.3	44.7	47.0	45.3	44.6
Gen. Gov. Expenditures/GDP	42.3	43.5	43.2	44.2	45.8	48.4	45.1	43.4
Gen. Gov. Financial Balance/GDP	0.5	2.4	2.5	0.2	-1.1	-1.4	0.1	1.2
Gen. Gov. Primary Balance/GDP	4.2	6.2	5.9	4.0	2.5	2.2	3.5	4.3
Gen Gov Direct Debt (US$ Bils.)	4.0	3.7	3.3	3.4	4.3	4.8	4.6	4.6
Gen. Gov. Direct Debt/GDP	49.3	44.6	41.9	47.5	44.1	42.2	39.4	36.0
Gen. Gov. Debt/Gen. Gov. Revenues	115.2	97.1	91.6	107.1	98.6	89.8	87.0	80.8
Gen. Gov. Interest Payments/Revenues	8.7	8.2	7.5	8.7	8.1	7.5	7.5	6.9
Gen. Gov. FX and FX-linked Debt/Total	45.4	47.9	55.1	61.3	60.8	—	—	—
ST Gen. Gov. Direct Debt/Total	10.1	12.7	15.1	16.1	13.0	10.1	—	—
External Payments and Debt								
Nominal Exchange Rate (/$ eop)	69.5	72.6	84.7	103.0	80.6	71.0	75.0	75.0
REER (% change)[2]	2.8	1.5	2.9	-12.0	6.4	5.6	—	—
Relative Unit Labor Costs (% Change)	113.4	124.9	135.1	116.9	123.1	132.5	—	—
Current Account Balance (US$ Mil.)	-556.6	-588.2	-853.8	-312.2	24.2	-592.7	-998.6	-1,453.3
Current Account Balance/GDP	-7.0	-7.0	-10.2	-4.1	0.3	-5.6	-8.4	-11.6
Net Foreign Direct Investment/GDP	0.9	-0.7	-2.7	-2.3	-1.2	-1.1	—	—
Net Int'l Investment Position/GDP	-50.2	-49.4	-63.8	-75.6	-78.5	-67.4	-74.0	-79.0
Official Foreign Exchange Reserves (US$ Mil.)	411.6	452.9	364.6	314.8	414.7	764.6	929.0	1,100.0
Net Foreign Assets of Domestic Banks (US$ Mil)	-1,315.1	-1,801.1	-2,405.7	-2,212.2	-2,540.2	-2,083.0	—	—
Monetary and Credit Indicators								
Domestic Credit (% change)[3]	28.0	23.9	45.1	12.9	8.2	23.9	—	—
Domestic Credit/GDP[3]	67.9	78.7	105.3	105.6	108.7	130.1	—	—
M3 % change[3]	15.2	16.9	11.2	14.9	15.3	23.5	—	—
ST Nominal Interest Rate	7.5	9.0	11.4	10.1	5.8	5.3	—	—
Total Liabilities Due to BIS Banks/Total Assets in BIS Banks	806.2	940.8	1360.1	1146.5	776.4	638.7	—	—

Notes:
[1] Sum of Exports and Imports of Goods and Services/GDP
[2] Real Effective Exchange Rate
[3] Source: Central Bank of Iceland.

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