



MINISTRY OF FINANCE
AND ECONOMIC AFFAIRS

ICELANDIC ECONOMIC SITUATION OVERVIEW

March 2015

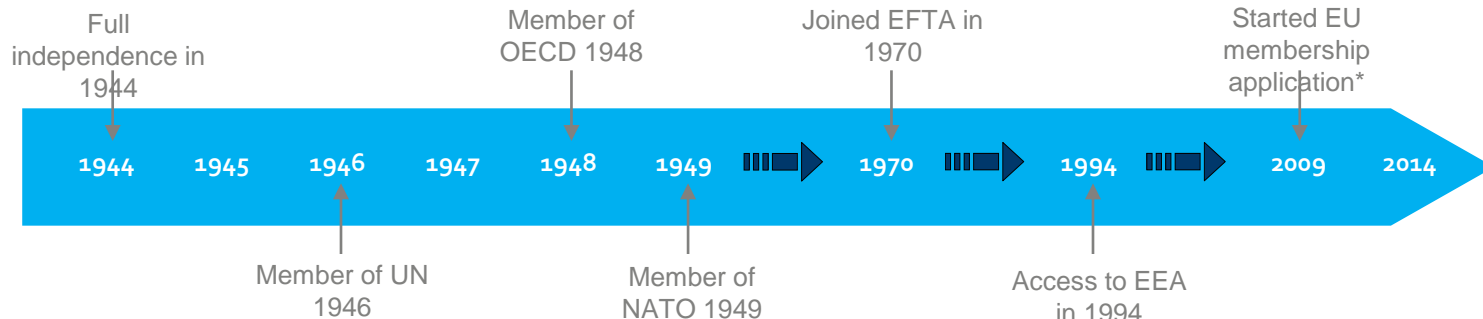
ICELAND AT A GLANCE

State and Government	<p>Republic, written constitution, parliamentary form of government</p> <p>Coalition: Independence Party and Progressive Party, formed in May 2013</p> <p>Parliament: Althingi established in 930, currently 63 members★</p>
Capital	Reykjavik
Population	329,040 as of 4 th quarter 2014 (Source: Statistics Iceland)
Currency	<p>Icelandic Krona (ISK) February '15 monthly average (source CBI)</p> <p>USD = ISK 132</p> <p>EUR = ISK 150</p>
GDP per capita	USD 45,137 in 2013 (Source: Statistics Iceland)
Long term credit ratings	<p>Moody's: Baa3 / Stable</p> <p>S&P: BBB- / Positive</p> <p>Fitch: BBB / Positive</p>



Location	<p>Northern Europe</p> <p>Flying time: 5.5 and 3 hours from New York and London respectively</p>
Area	103,000 km ² / 39,756 sq. miles

Political Milestones

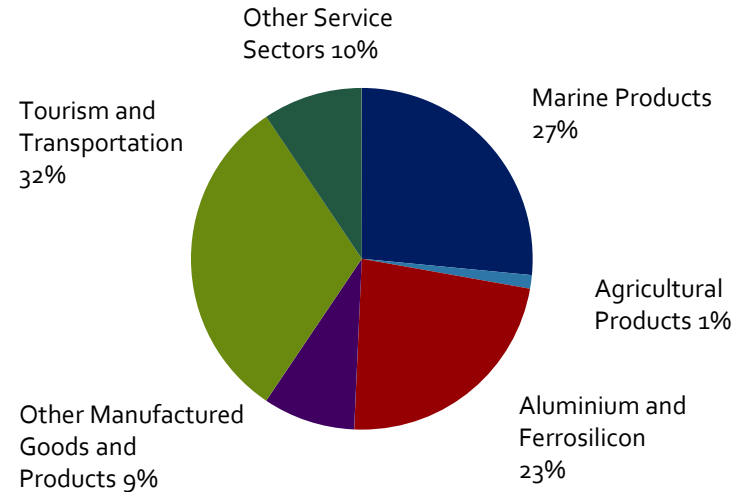


THE ICELANDIC ECONOMY

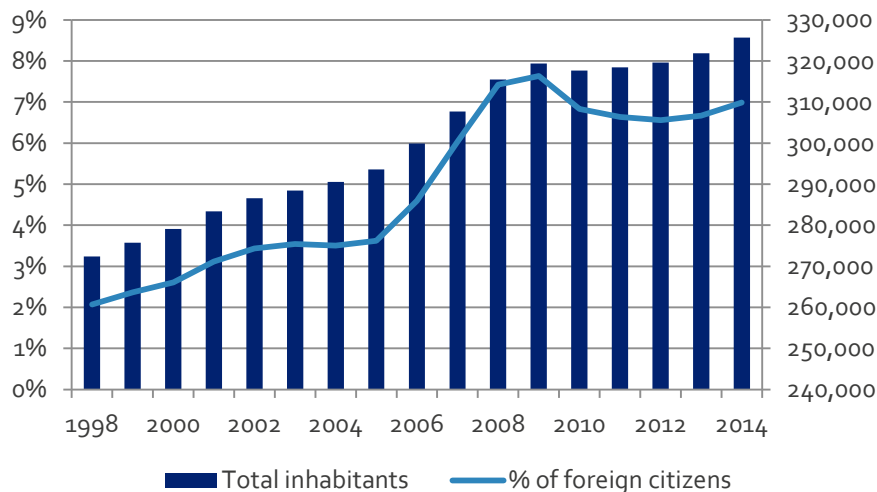
Facts

- Iceland is emerging steadily from a recession caused by the 2008 collapse of its economy and banking system
- Inflation (2014): 2%
- GDP growth (2014): 1,9%
- Unemployment (2014): 3,6%
- Life expectancy (2012): Men: 81,6, women: 84,3

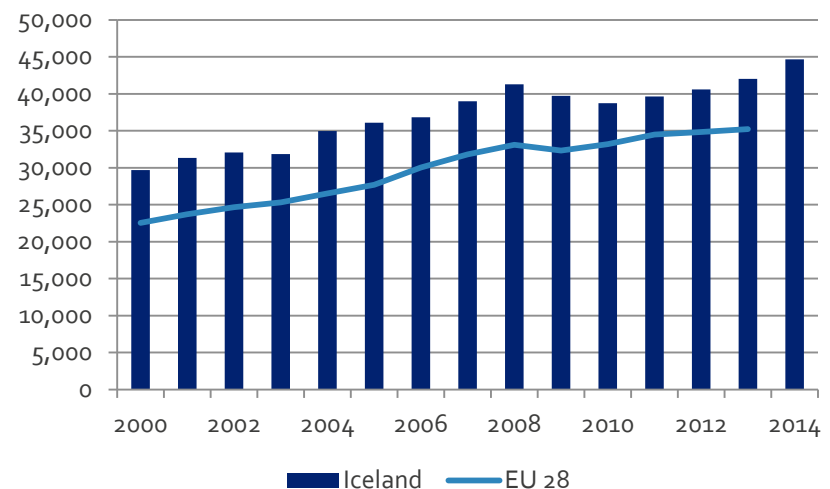
Export of goods and services by type 2013



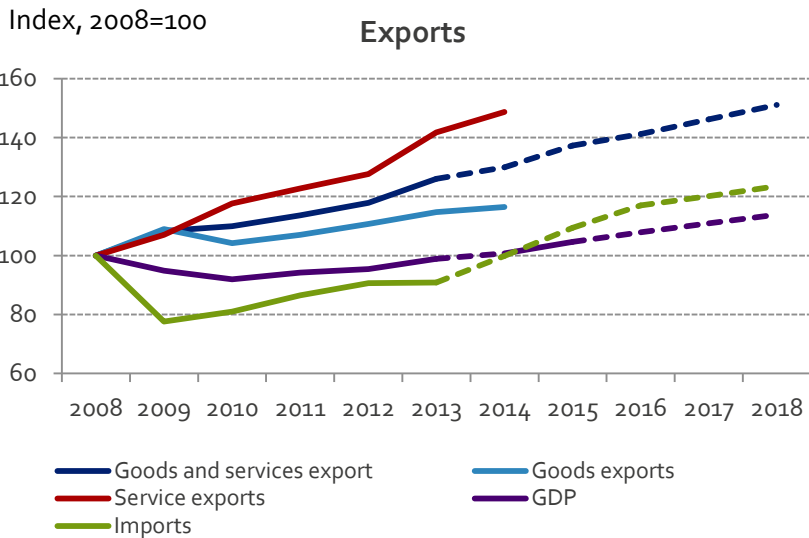
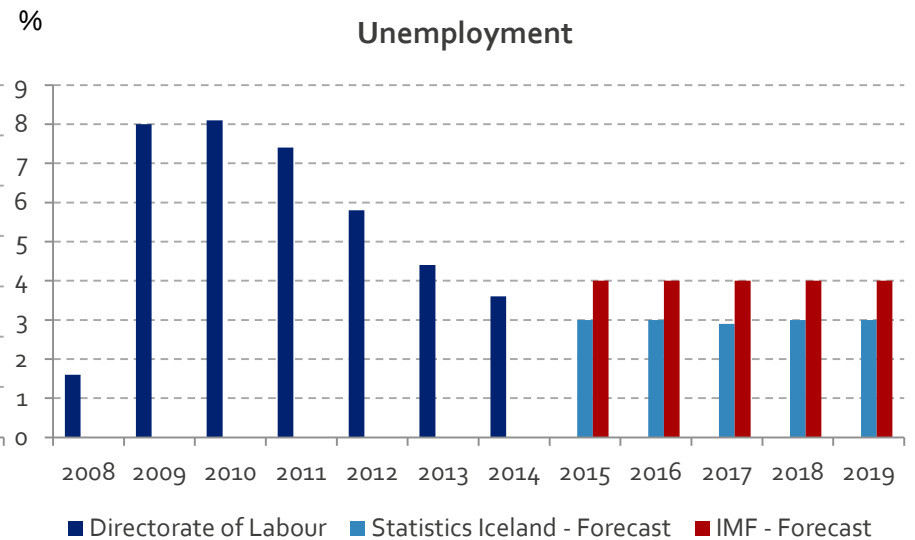
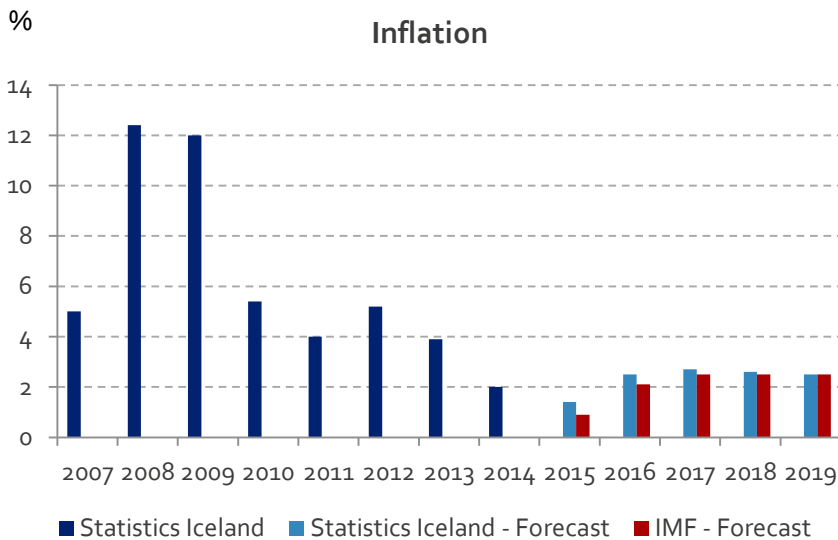
Icelandic population



GDP per capita, USD PPP

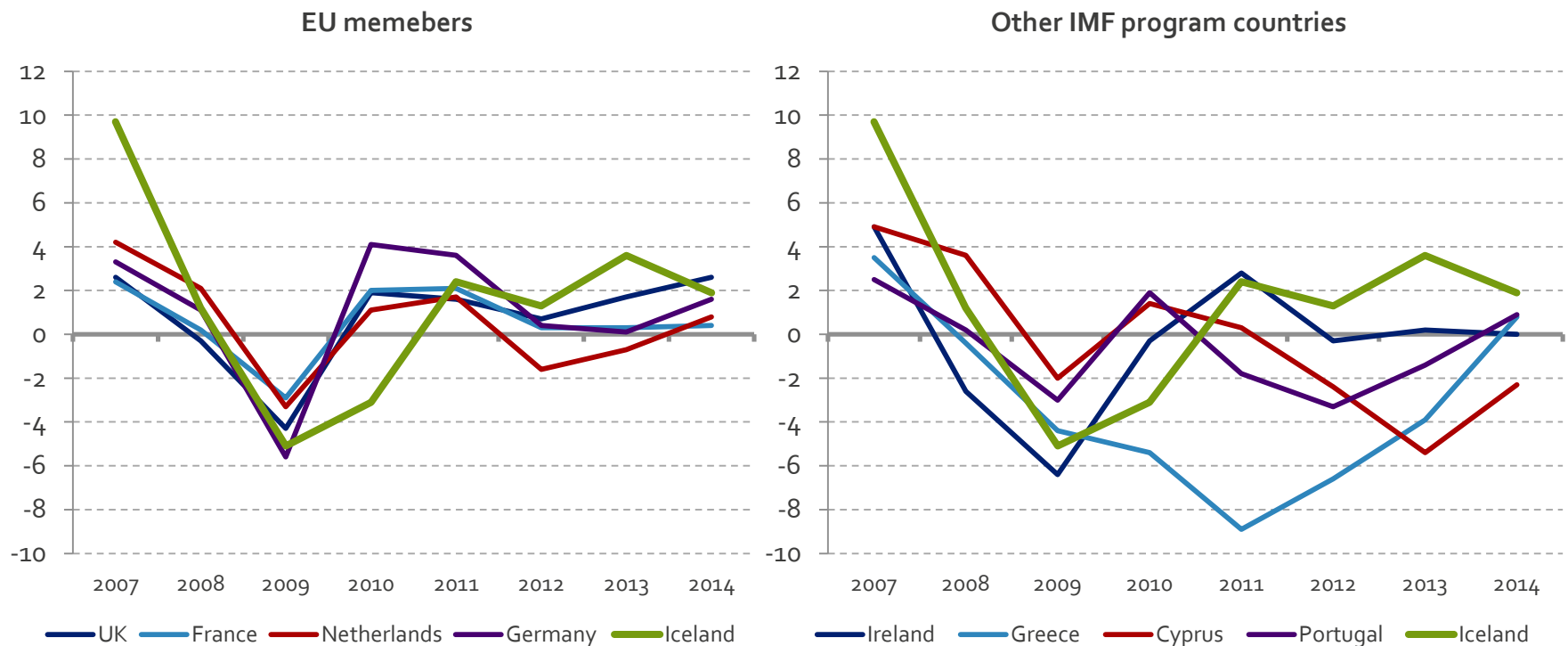


WITH LOW UNEMPLOYMENT AND STRONG EXPORT SECTOR...



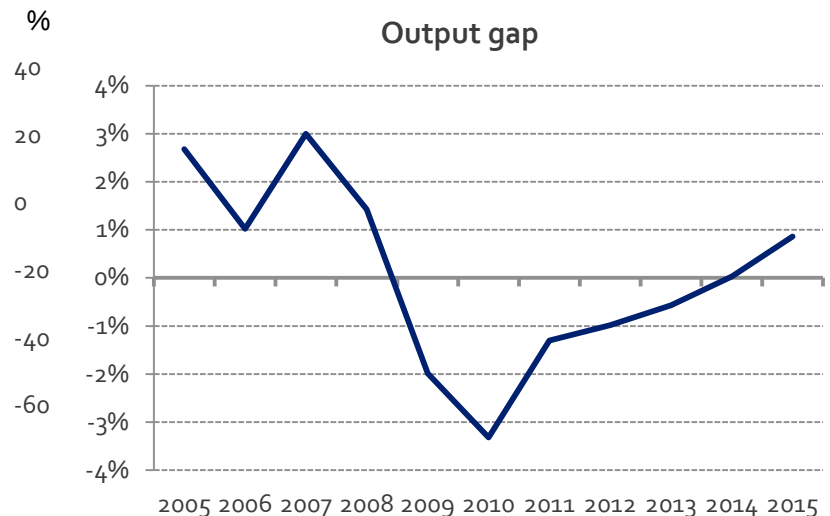
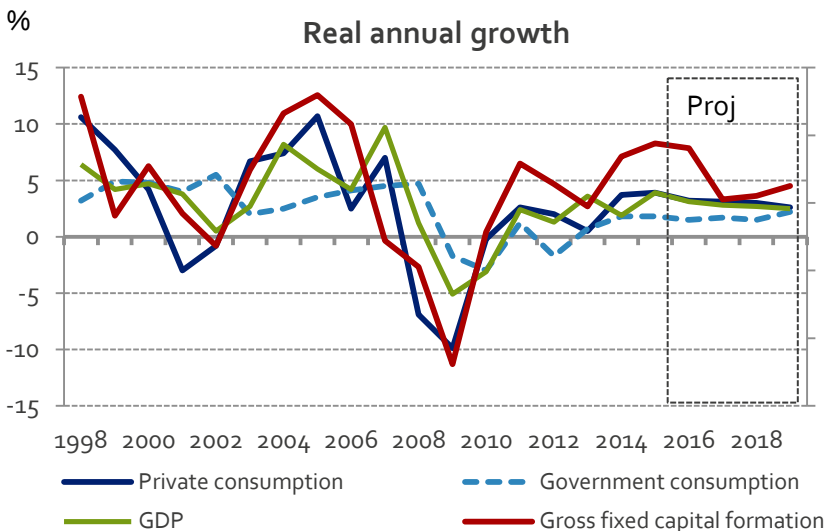
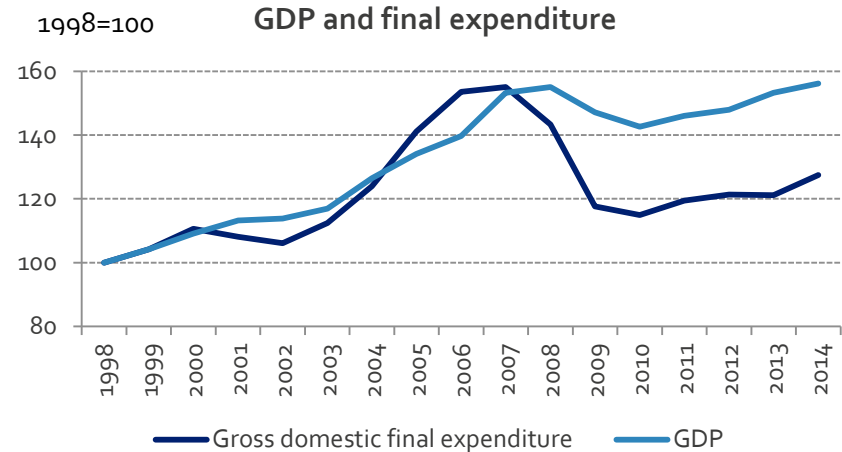
ICELAND IS RECOVERING FASTER THAN OTHERS...

Real GDP growth - volume



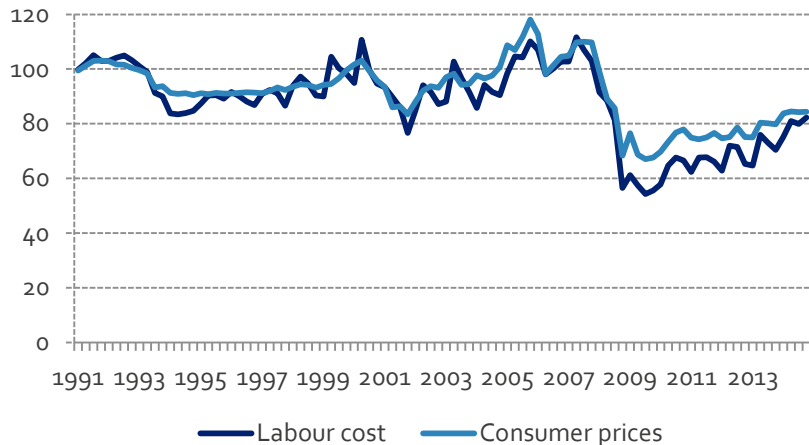
STRONG GROWTH CLOSES THE OUTPUT GAP...

- GDP grew by 1,9% in 2014, year on year (3.6% growth in 2013)
- The growth is mainly driven by a large increase in the gross domestic final expenditure (5.3%)
- Growth prospects are good with average around 3%
- Private consumption has been growing steadily since 2011. Last year it grew by 3.7%
- Investment, which is quite volatile, grew by 13.7% in 2014

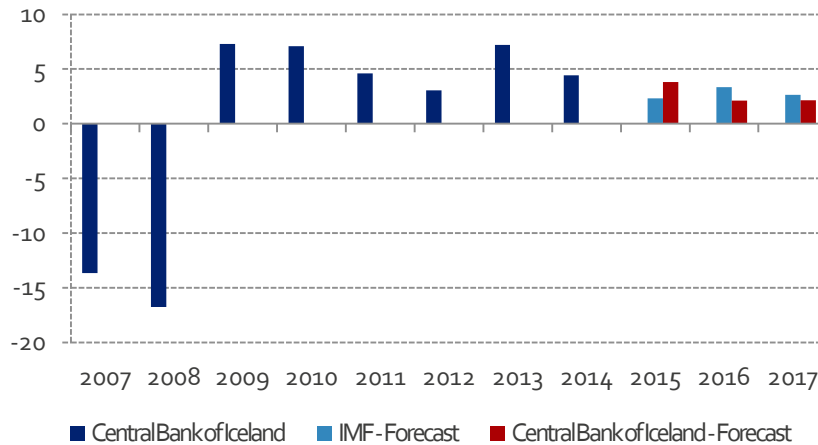


AND FALL IN EXCHANGE RATE HAS TRIGGERED CURRENT ACCOUNT TURNAROUND

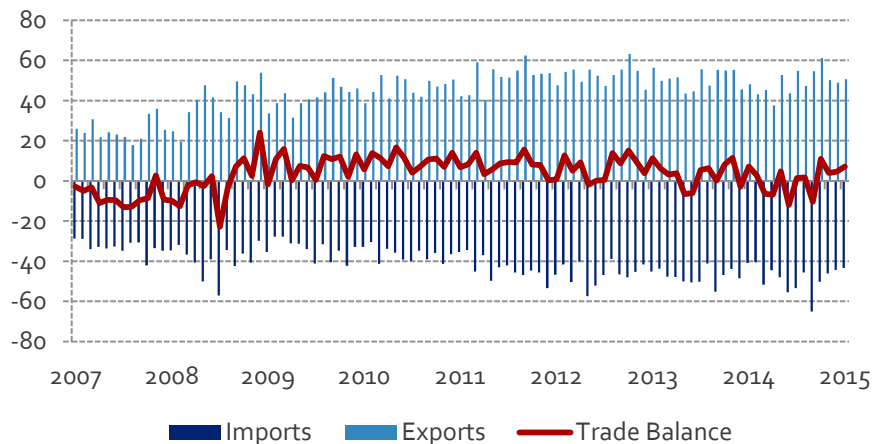
Real exchange rate



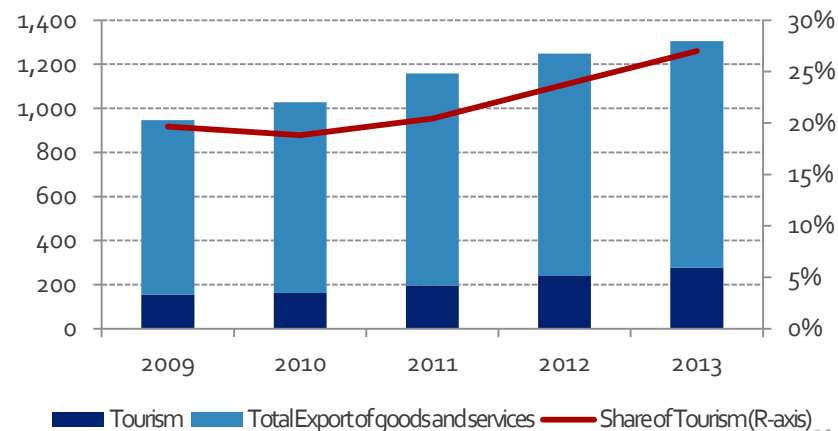
Underlying Current Account Balance



Trade balance

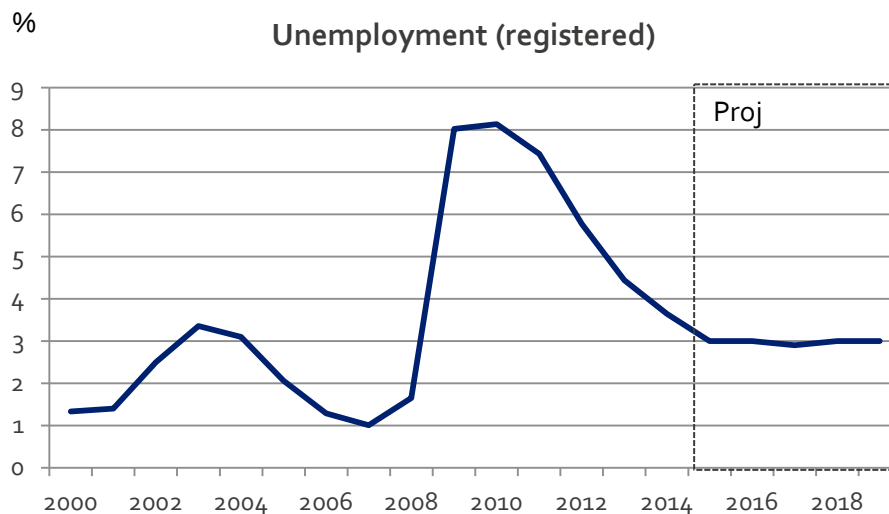


Rising share of tourism

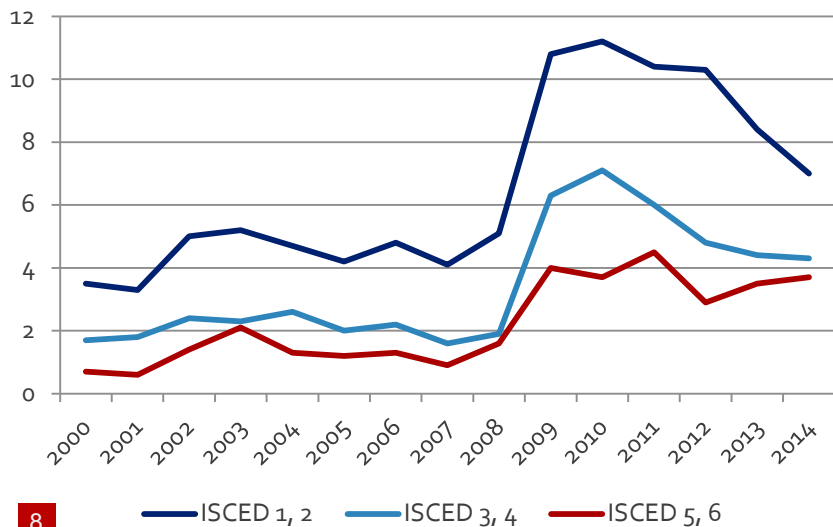


LABOUR MARKET HAS RECOVERED

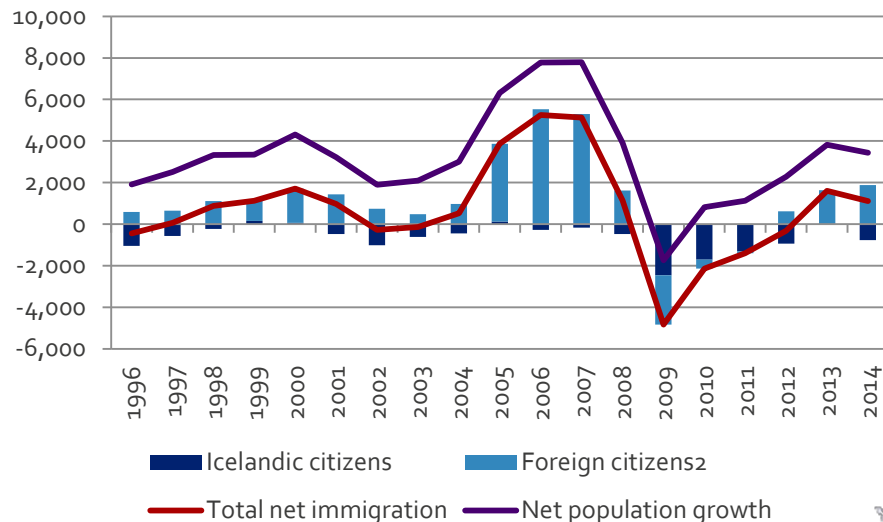
- Registered unemployment was 3.6% in 2014. It is projected to be around 3% until 2019
- Unemployment was around 8% in 2009 and 2010
- Unemployment has decreased fastest among the least educated (ISCED 1,2) but increased recently for those with tertiary education (ISCED 5,6)
- Net immigration fell in 2009 and 2010 but has since then picked up



Unemployment by education

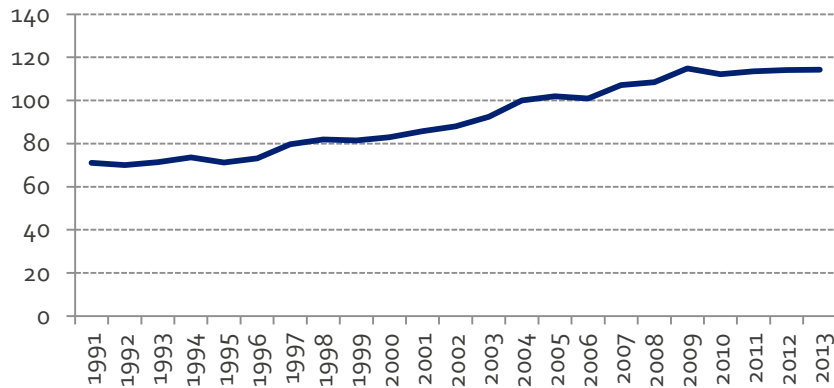


Net immigration and population growth

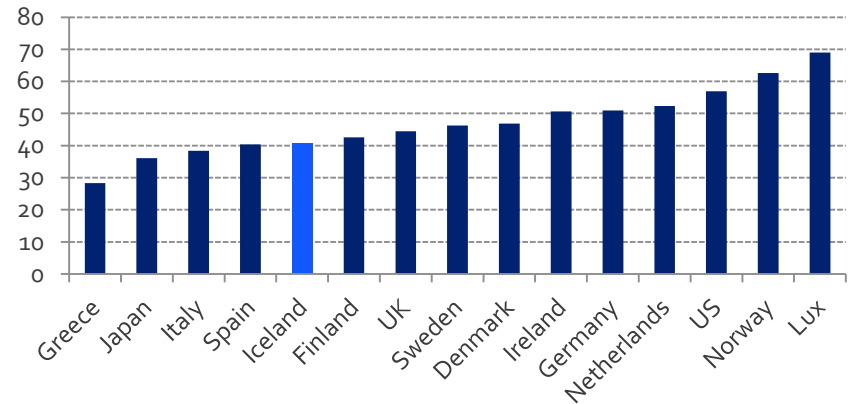


AND PRODUCTIVITY IS STABLE

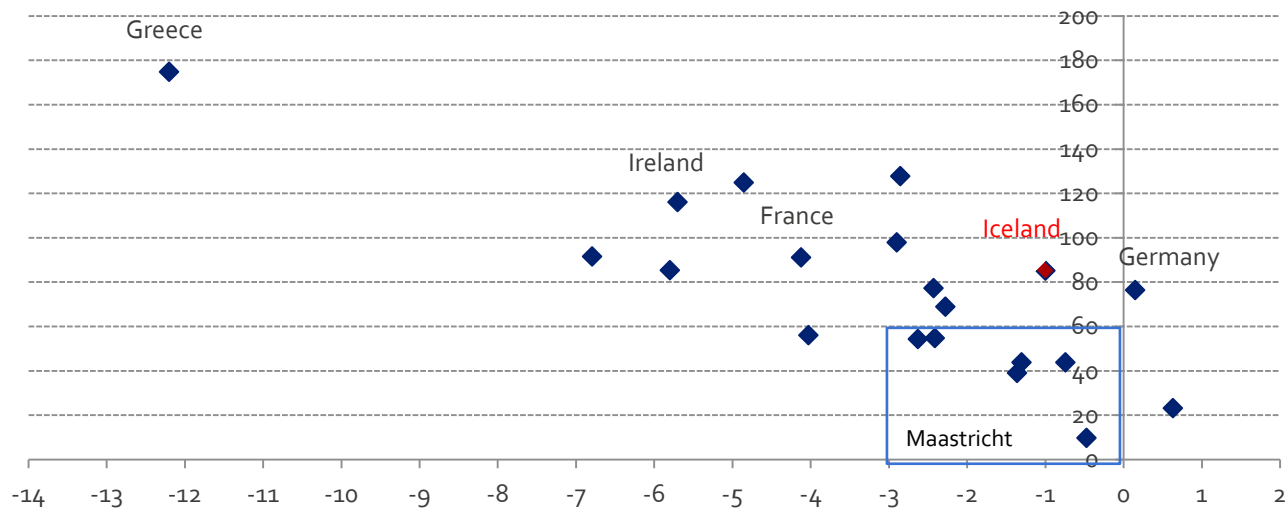
Labor productivity



Productivity, GDP per hour worked



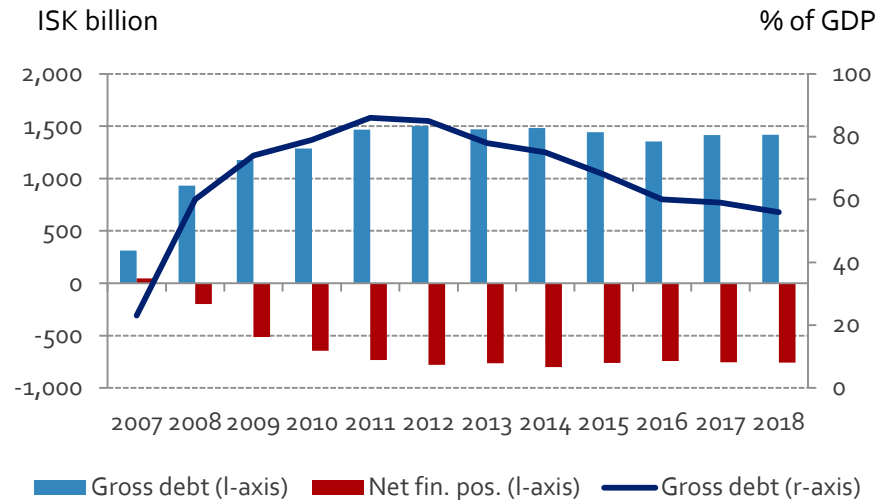
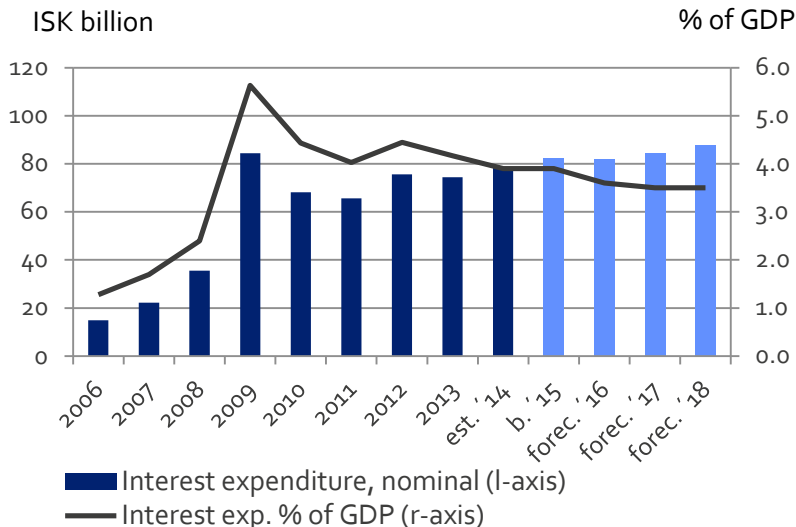
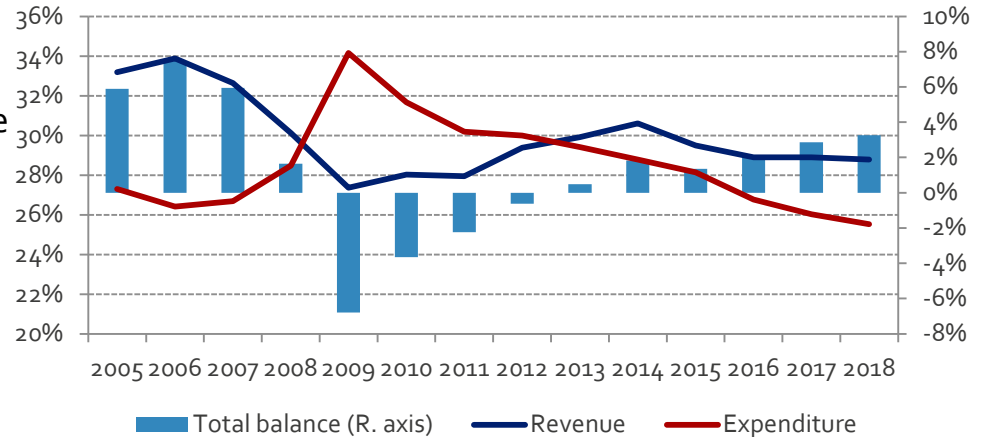
General government debt and deficit, %GDP



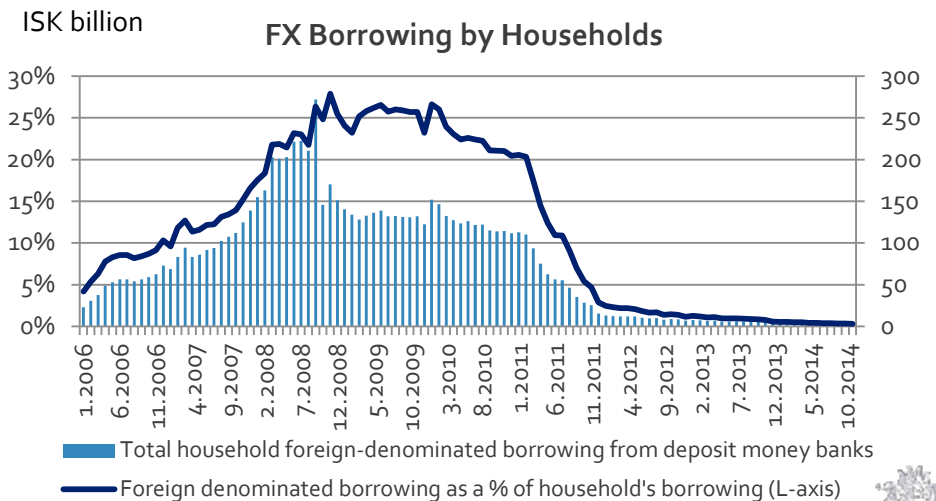
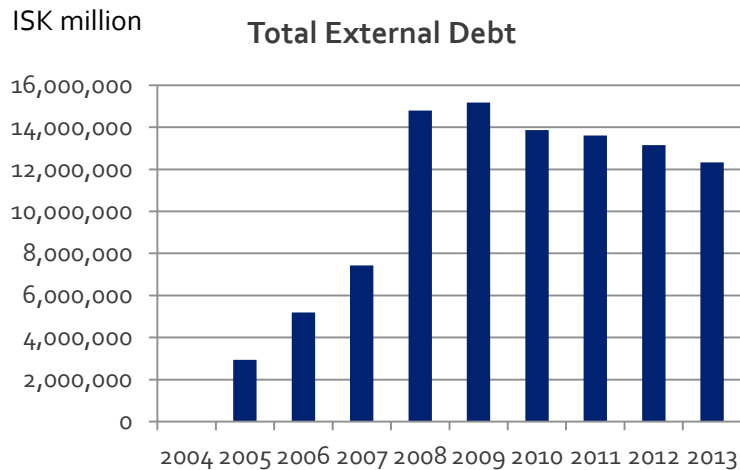
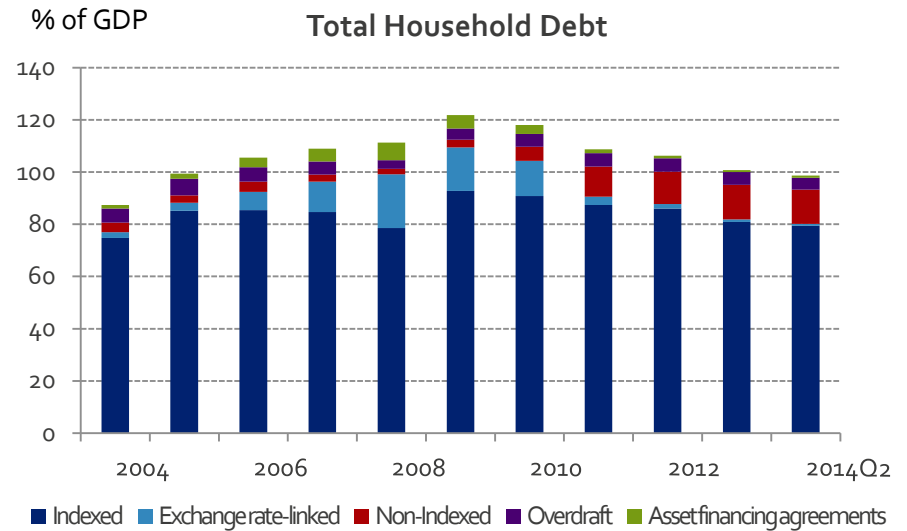
BUT CHALLENGES REMAIN

- The overriding objective of the fiscal plan has been to achieve a substantial surplus in the primary balance to counteract the deficit in the interest balance and produce a surplus in the overall balance of the Treasury
- Interest expenditure is a significant burden for the Treasury
- One of the main challenges is to reduce total debt in the coming years

Total Balance (excl. Irregular items)



WITH HIGH DEBT LEVELS

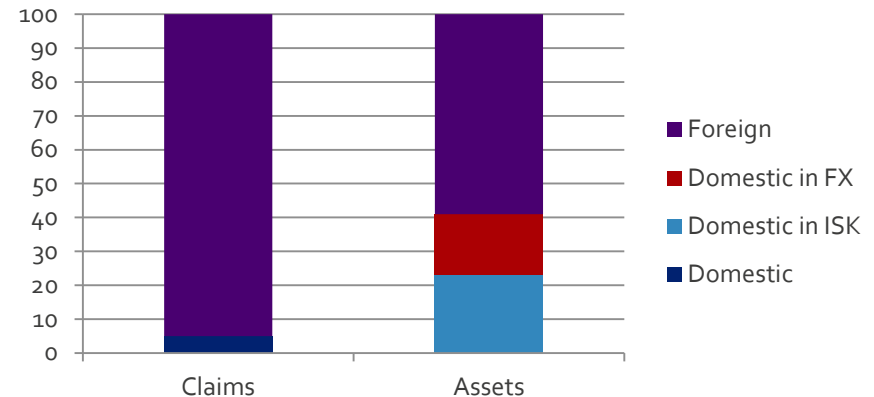


AND CAPITAL CONTROLS NEED TO BE LIFTED

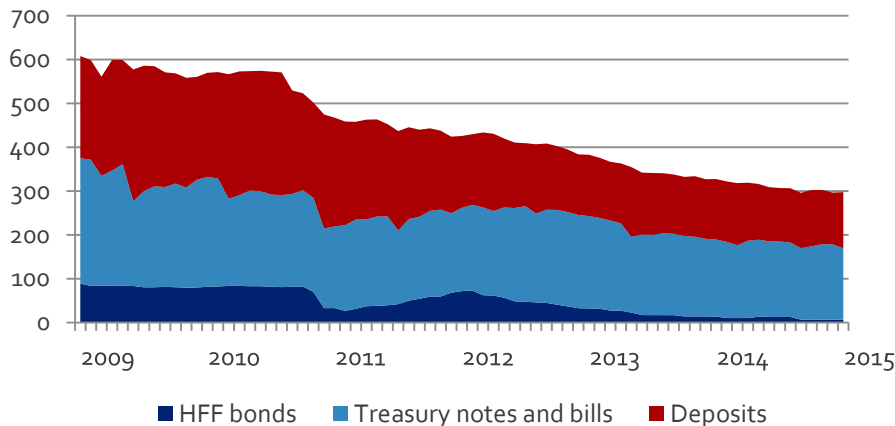
Conditioned based removal of controls:

- macroeconomic developments
- potential balance of payments and foreign exchange effects
- financial stability

Estimated domestic/foreign breakdown of assets and claims of DMBs in winding-up proceedings



Off shore ISK



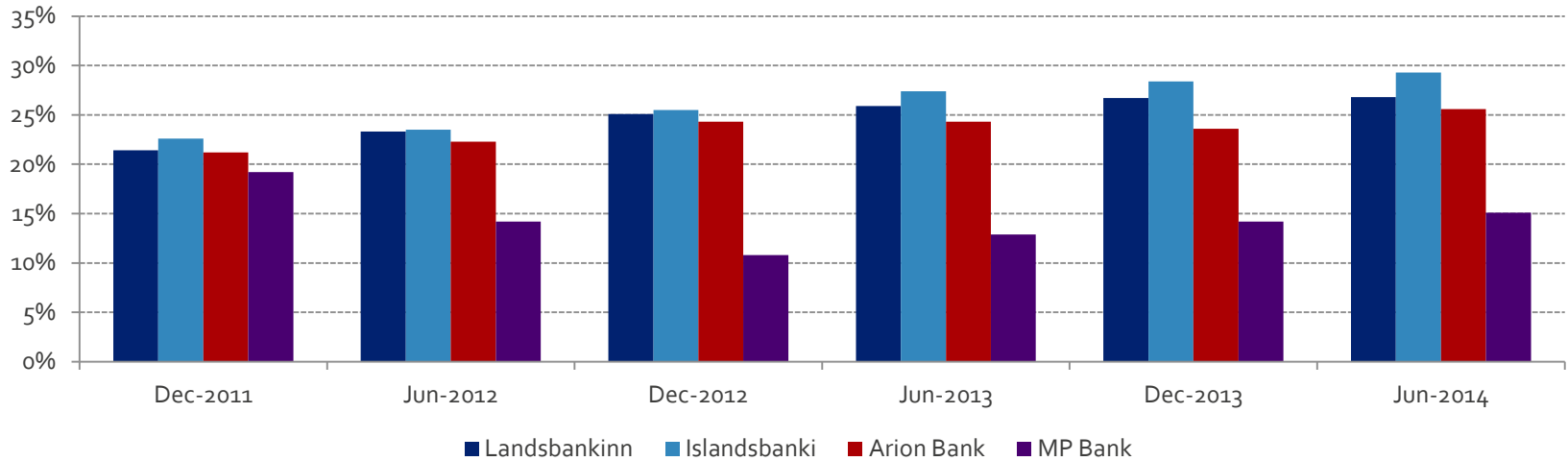
Authorities have expressed preference for:

- simplicity over complexity
- time efficiency for liberalization for the real economy
- minimizing legal risks
- finality of the crisis related legacies

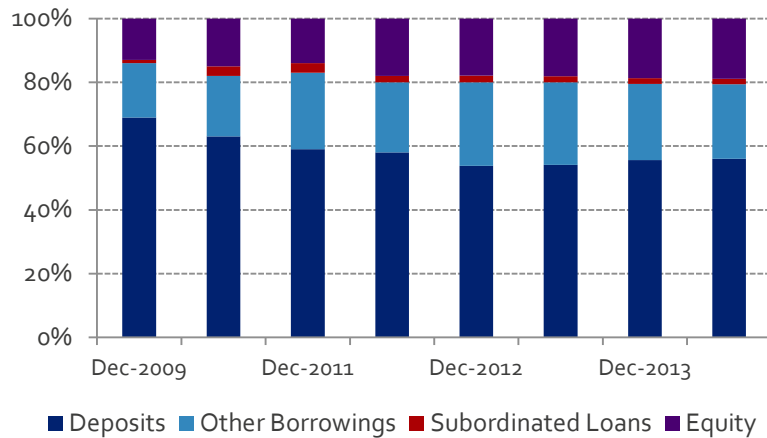


BUT ICELAND'S BANKS ARE ON A RIGHT TRACK

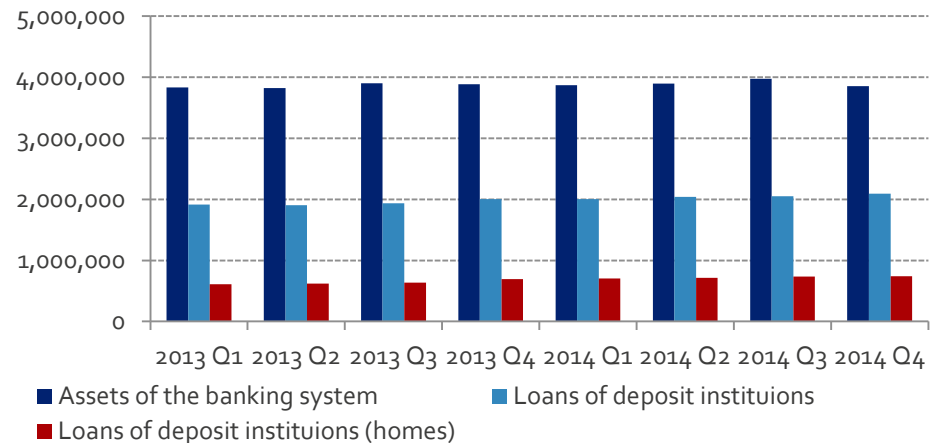
Commercial Banks' Capital Adequacy Ratios



Commercial Banks' Funding

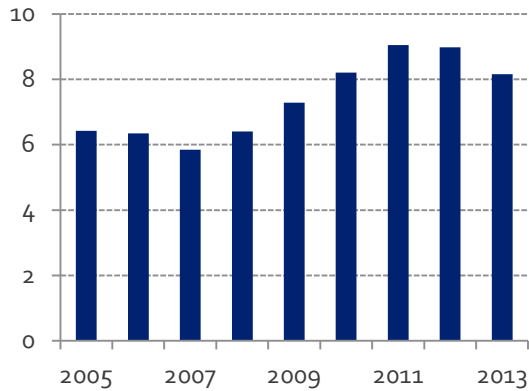


Loans and assets of the banking system (ISK millions)

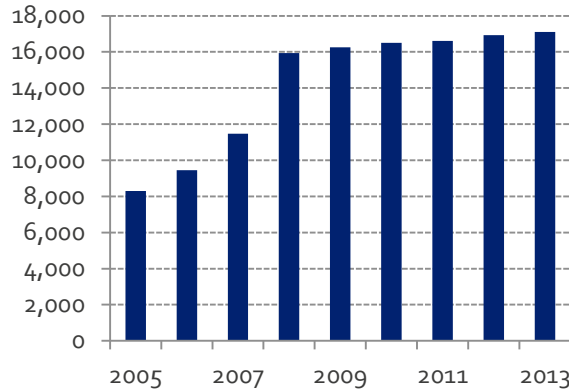


AND KEY SECTORS REMAIN STRONG

Catch Value as a % of GDP



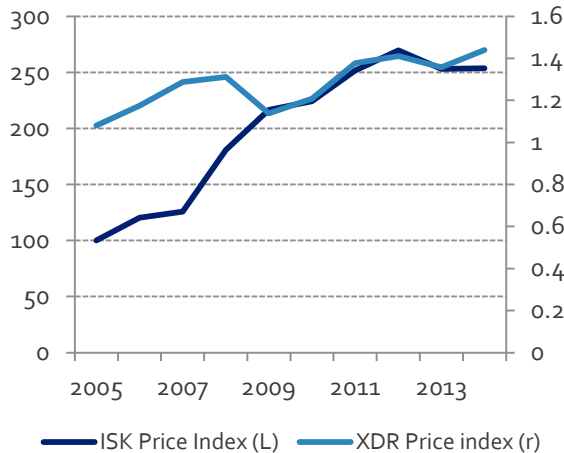
GWh Energy Transmitted by Landsnet



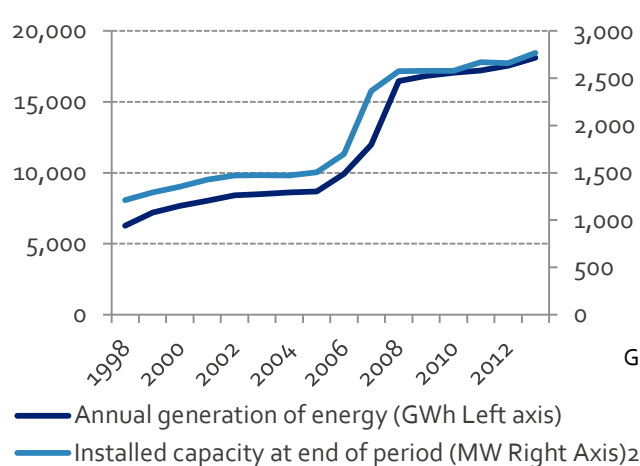
Thousand Tourists to Iceland



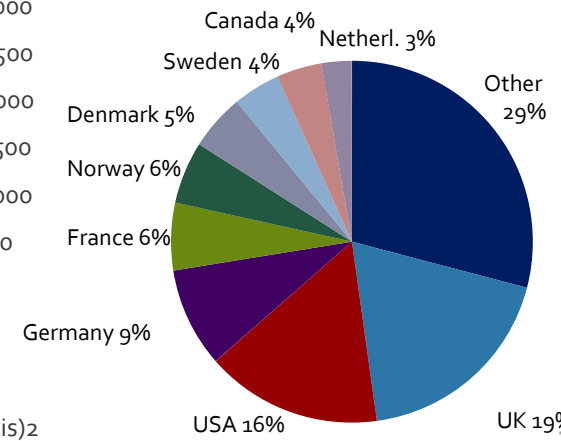
Price indices of Marine Products



Electricity Capacity and Generation



Foreign Passengers through Keflavik Airport 2014





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■ Thank you for your attention

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