



MINISTRY OF FINANCE
AND ECONOMIC AFFAIRS

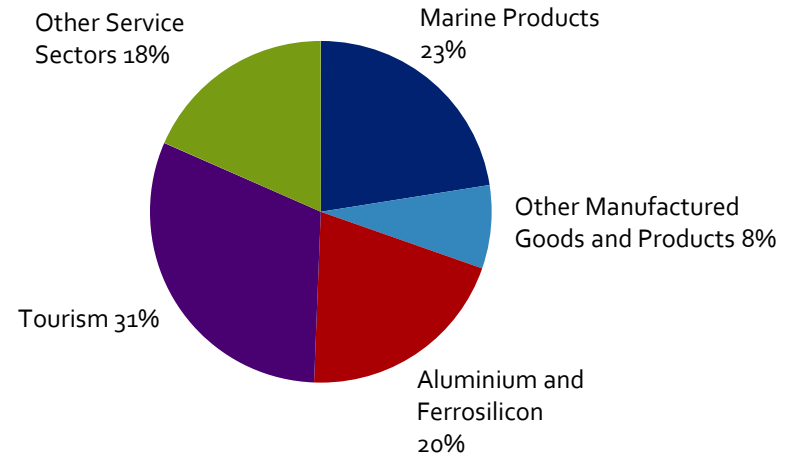
ICELAND'S ECONOMIC SITUATION

September

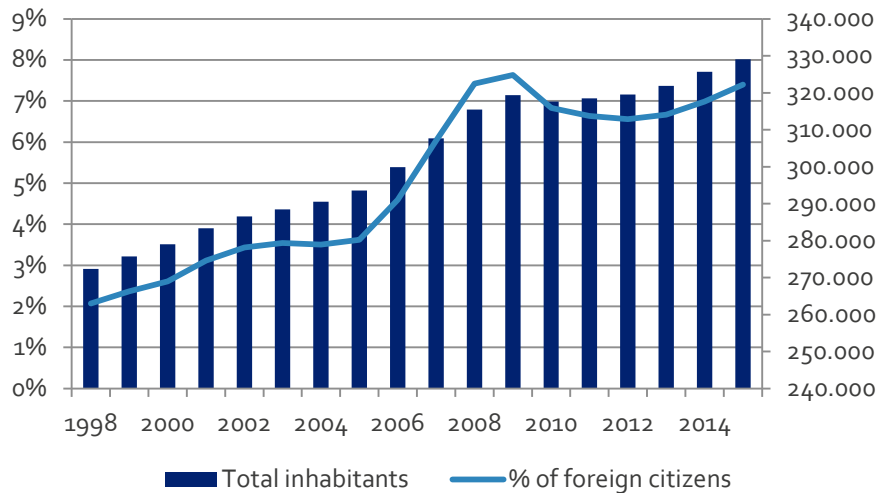
THE ICELANDIC ECONOMY

- Iceland is emerging steadily from a recession caused by the 2008 collapse of its economy and banking system
- Inflation (2015): 1,6%
- GDP growth (2015): 4.0%
- Unemployment (2015): 4.0%
- Life expectancy (2015): Men: 81.0, women: 83.6

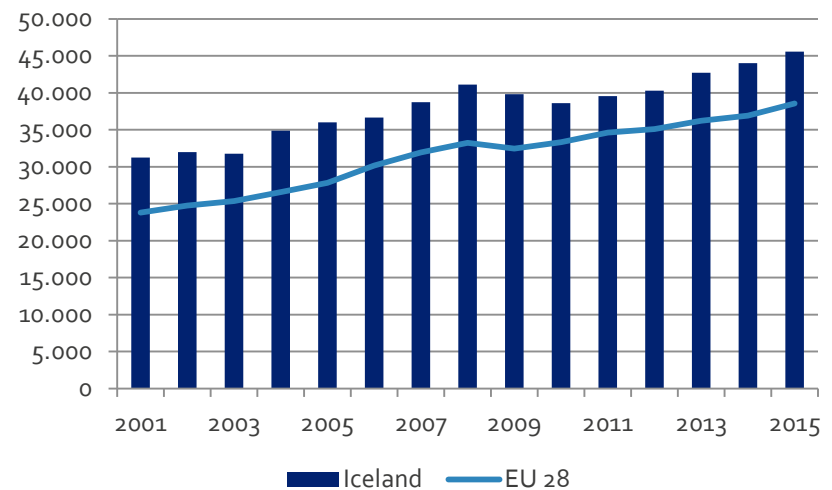
Export of goods and services by type 2015



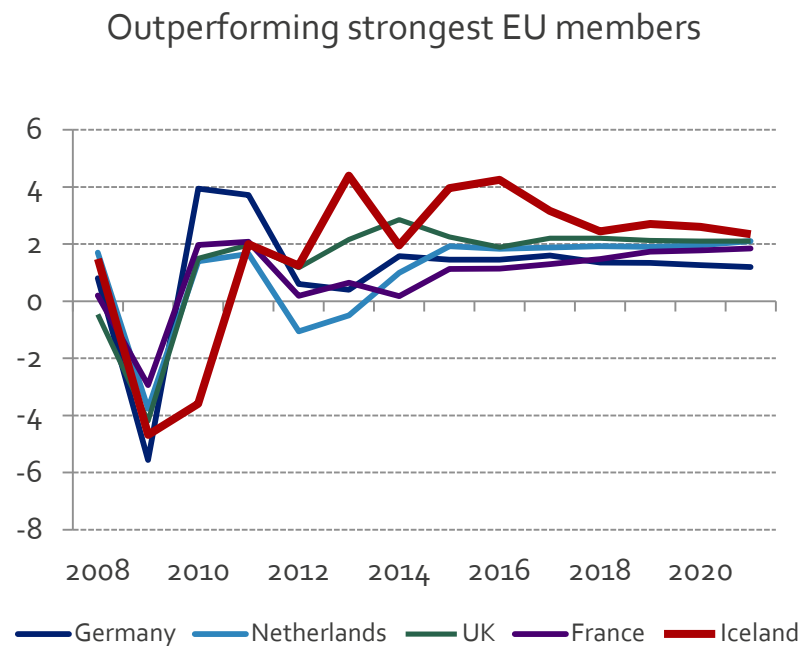
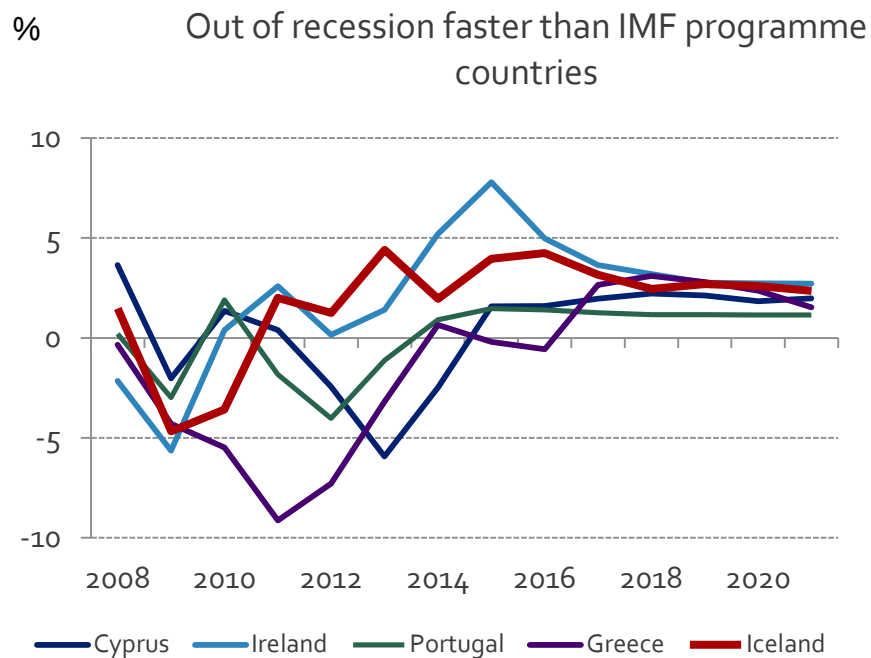
Icelandic population



GDP per capita, USD PPP



GDP GROWTH: FASTER AND STRONGER RECOVERY THAN MOST OF EUROPE

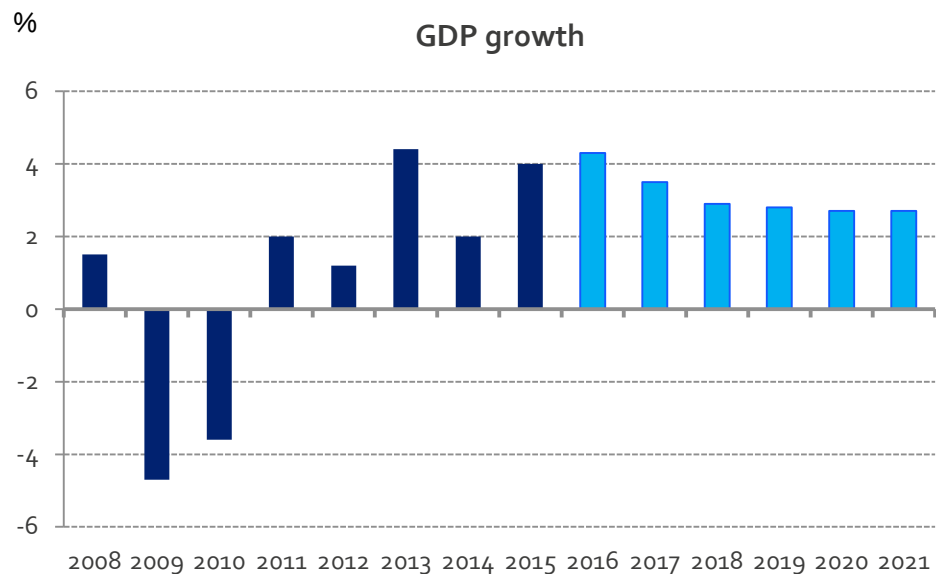


Source: IMF Economic Outlook Database, April 2016



STRONG GROWTH IN COMING YEARS

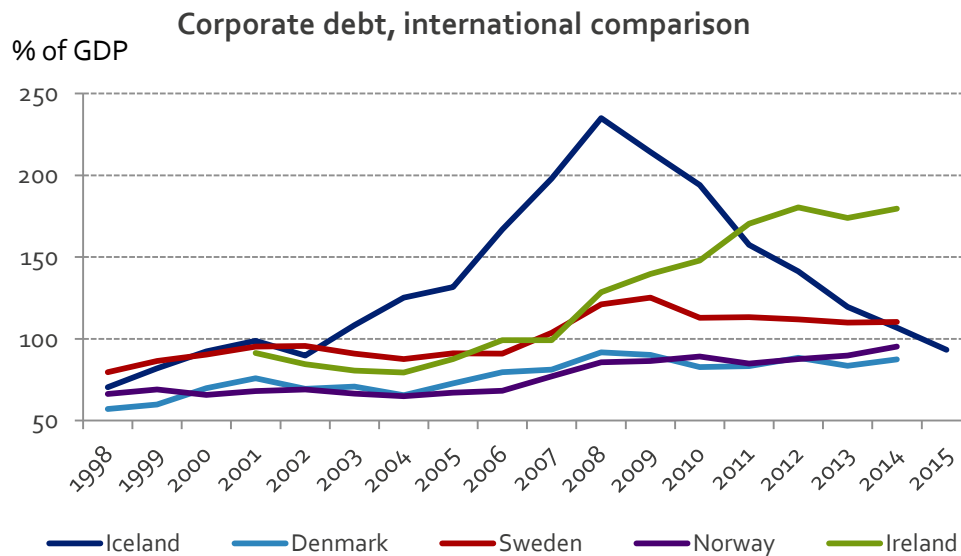
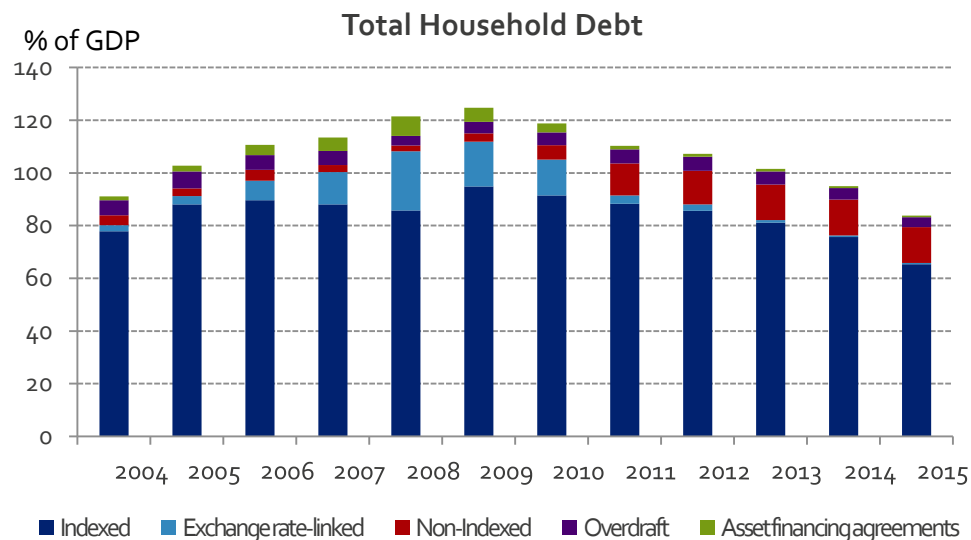
- GDP grew by 4.0% in 2015, year on year (2.0% growth in 2014)
- The growth is mainly driven by a large increase in the gross domestic final expenditure (6.3%)
- Growth prospects are good with average around 3% until 2021, 4,3% this year
- Private consumption has been growing steadily since 2011. Last year it grew by 4.8%
- Investment, which is quite volatile, grew by 18.6% in 2015



Source: Statistic Iceland



DEBT LEVELS HAVE FALLEN



Source: Central Bank



UNEMPLOYMENT IS LOW BUT PRODUCTIVITY FAILS TO PICK UP



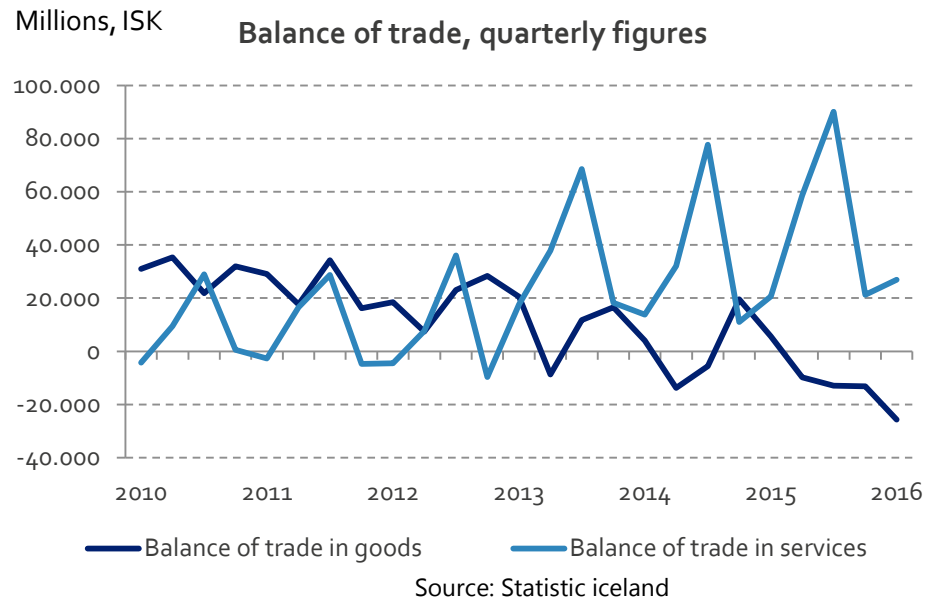
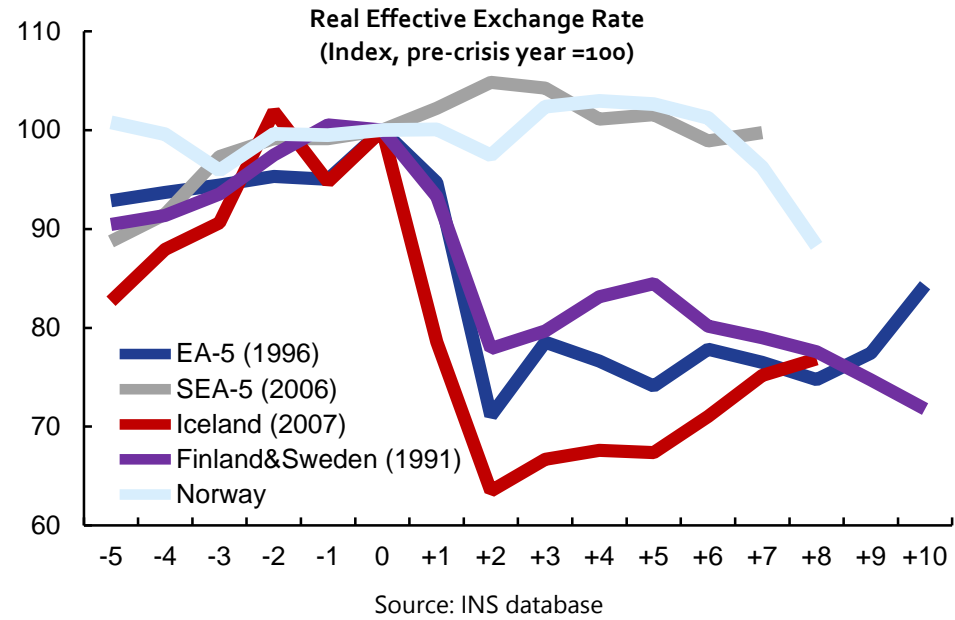
Source: Statistic Iceland



Source: Central Bank

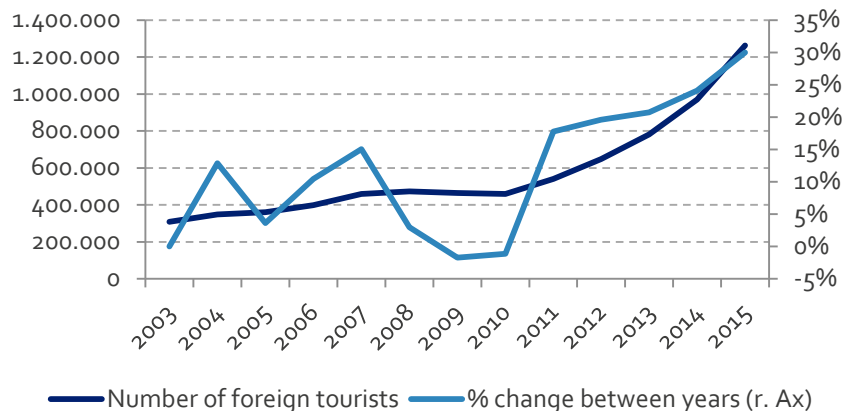


EXPORT SECTORS HAVE BEEN DRIVING RECOVERY

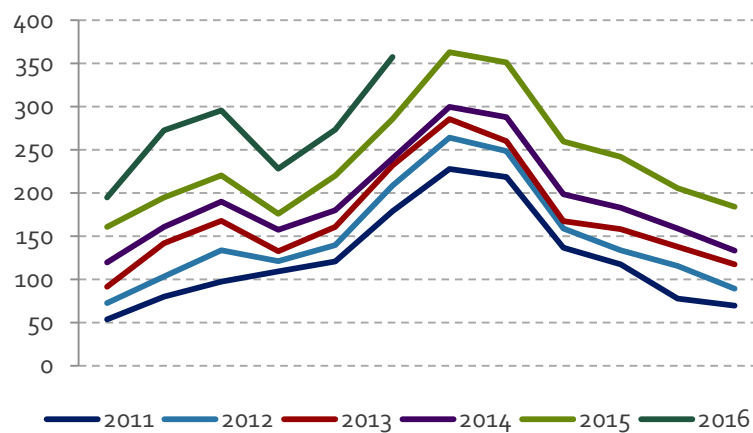


TOURIST SECTOR

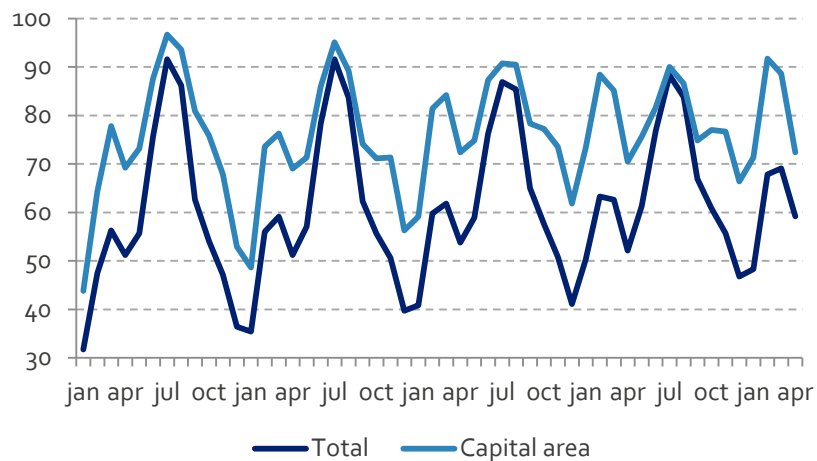
Foreign tourists in Iceland



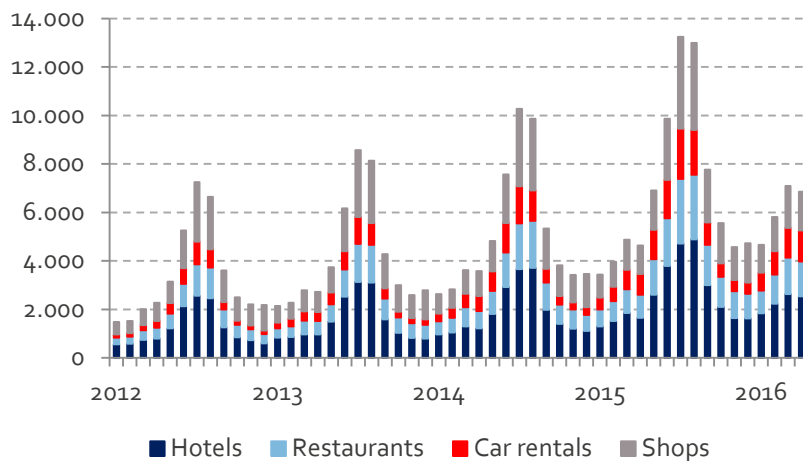
Hotel nights in Iceland (jan-dec)



Occupancy rate of hotel rooms 2012-2016

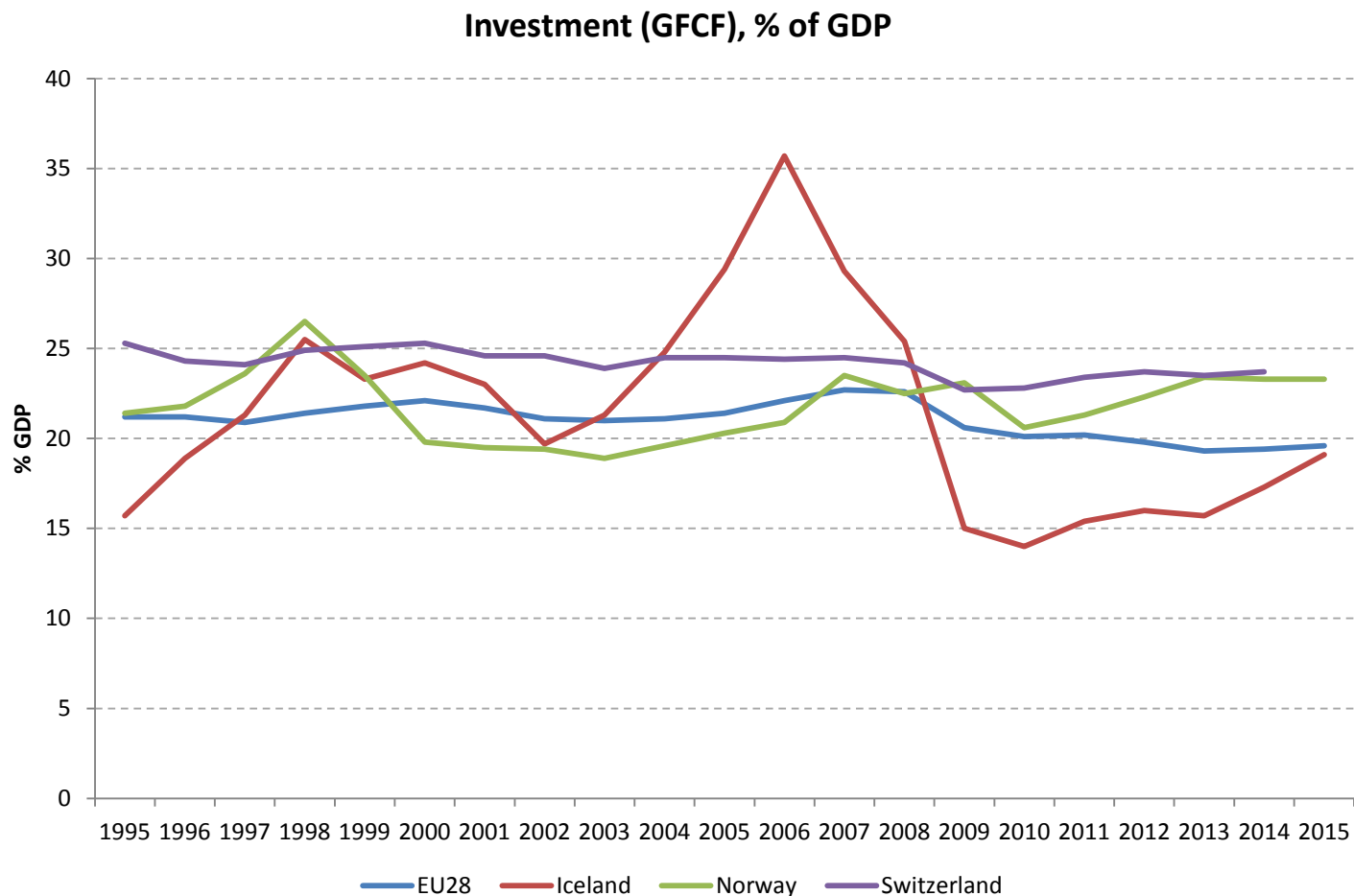


Credit card usage of foreign tourists



INVESTMENT

- » The level of investment relatively low despite a considerable investment growth
- » Investment fell sharply in 2008 and 2009 and total capital stock decreased



Source: OECD





INVESTMENT INCENTIVES

- » Investment agreements – bigger projects like aluminium smelters and silicon plants (tax incentives for new investment)

- » Innovation bill (approved in May 2016)
 - Various amendments
 - i.a. tax relief for individuals investing in small/growing companies
 - + R&D tax reliefs

- » Main obstacles
 - Capital controls
 - High interest rates





ORGANIC BUDGET LAW: STRENGTHENING OF THE FISCAL FRAMEWORK

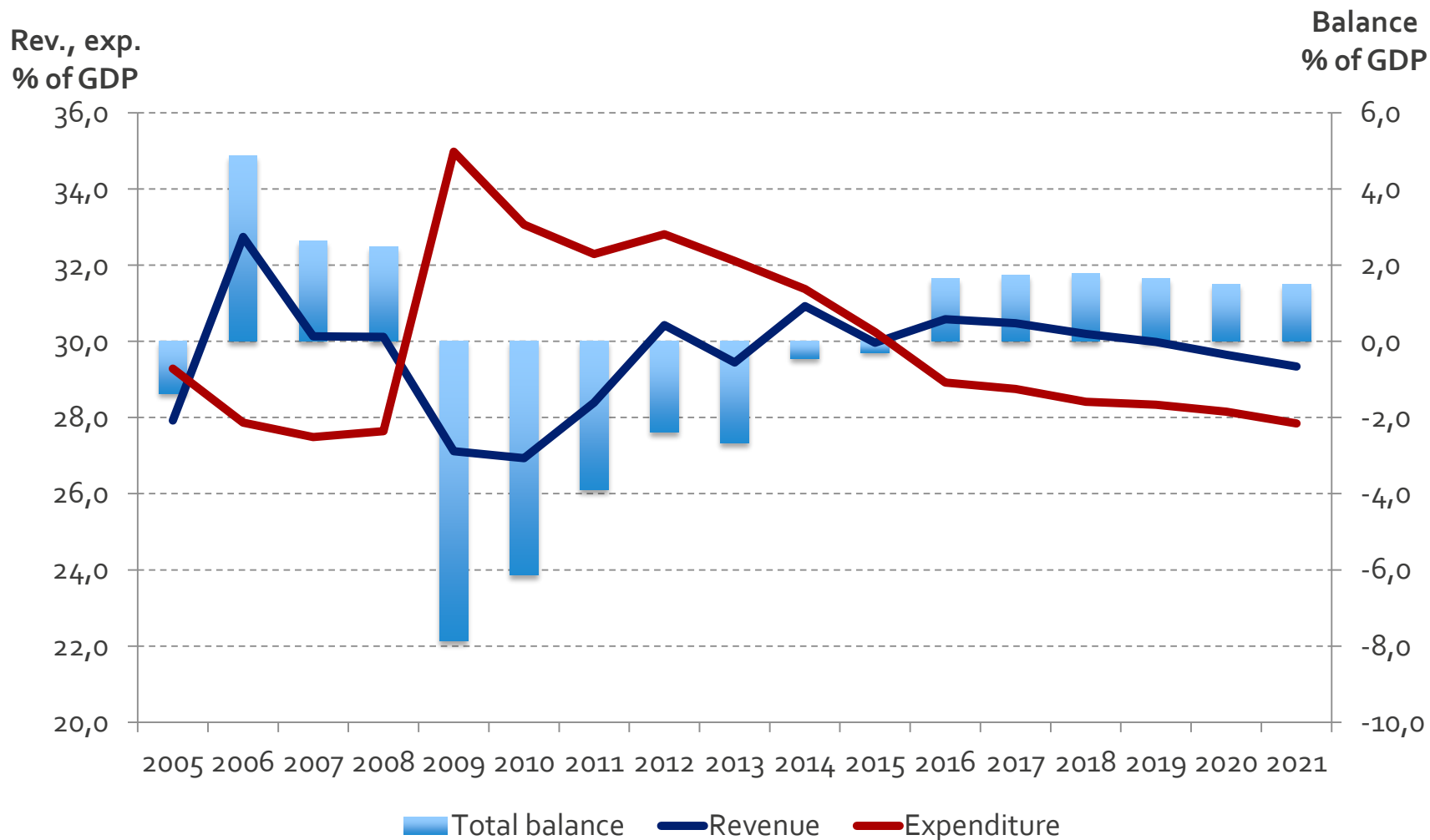
- » New Act on public finances is being implemented after coming into force January 1st 2016

- » Stipulated in the law that two Parliamentary resolutions in this area are to be submitted:
 - Statement of fiscal policy for the next five years
 - Fiscal strategy plan for the next five years (rolling spring plan)

- » Fiscal Rules



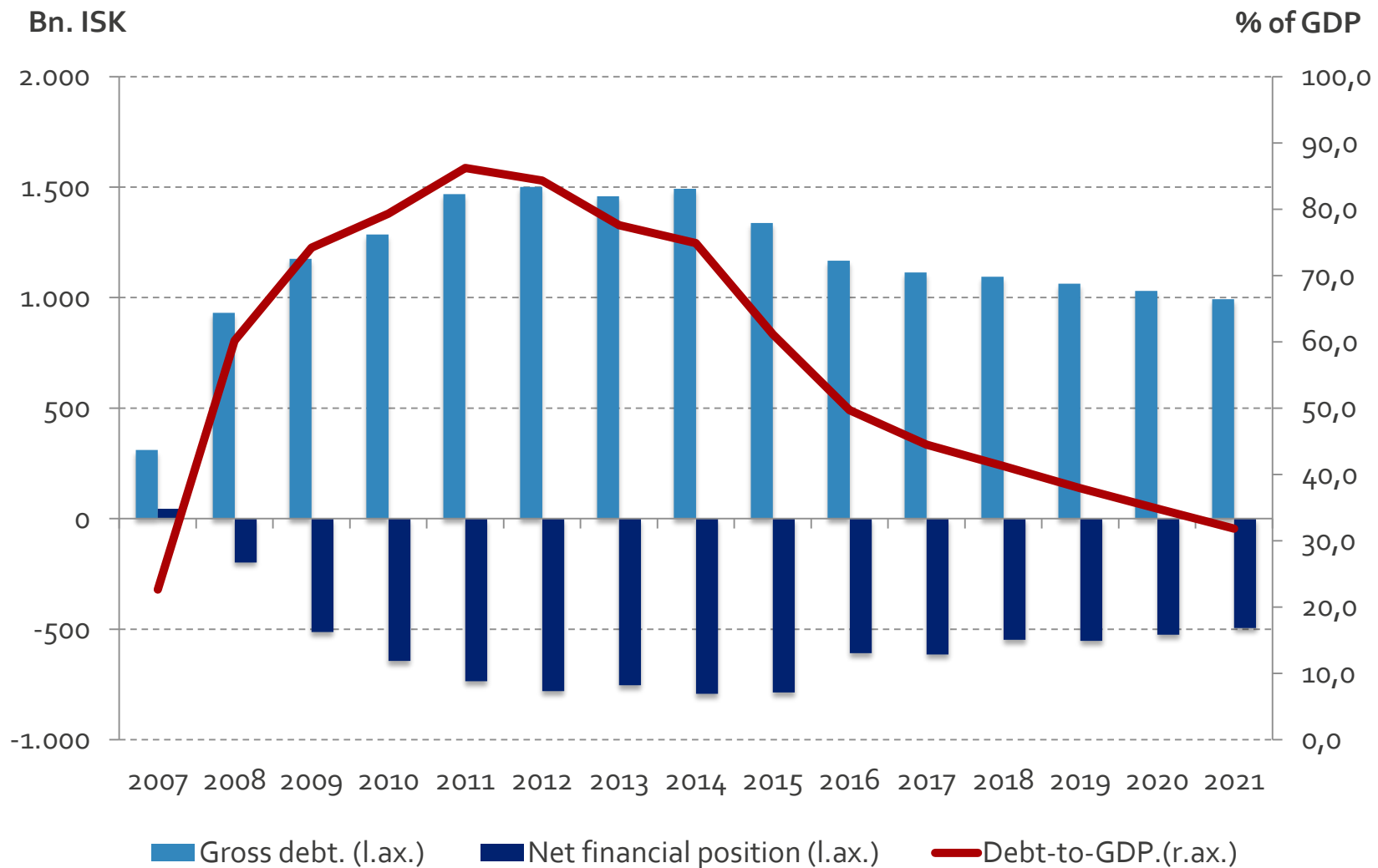
FISCAL STRATEGY PLAN 2017-2021: CENTRAL GOVERNMENT BALANCE*



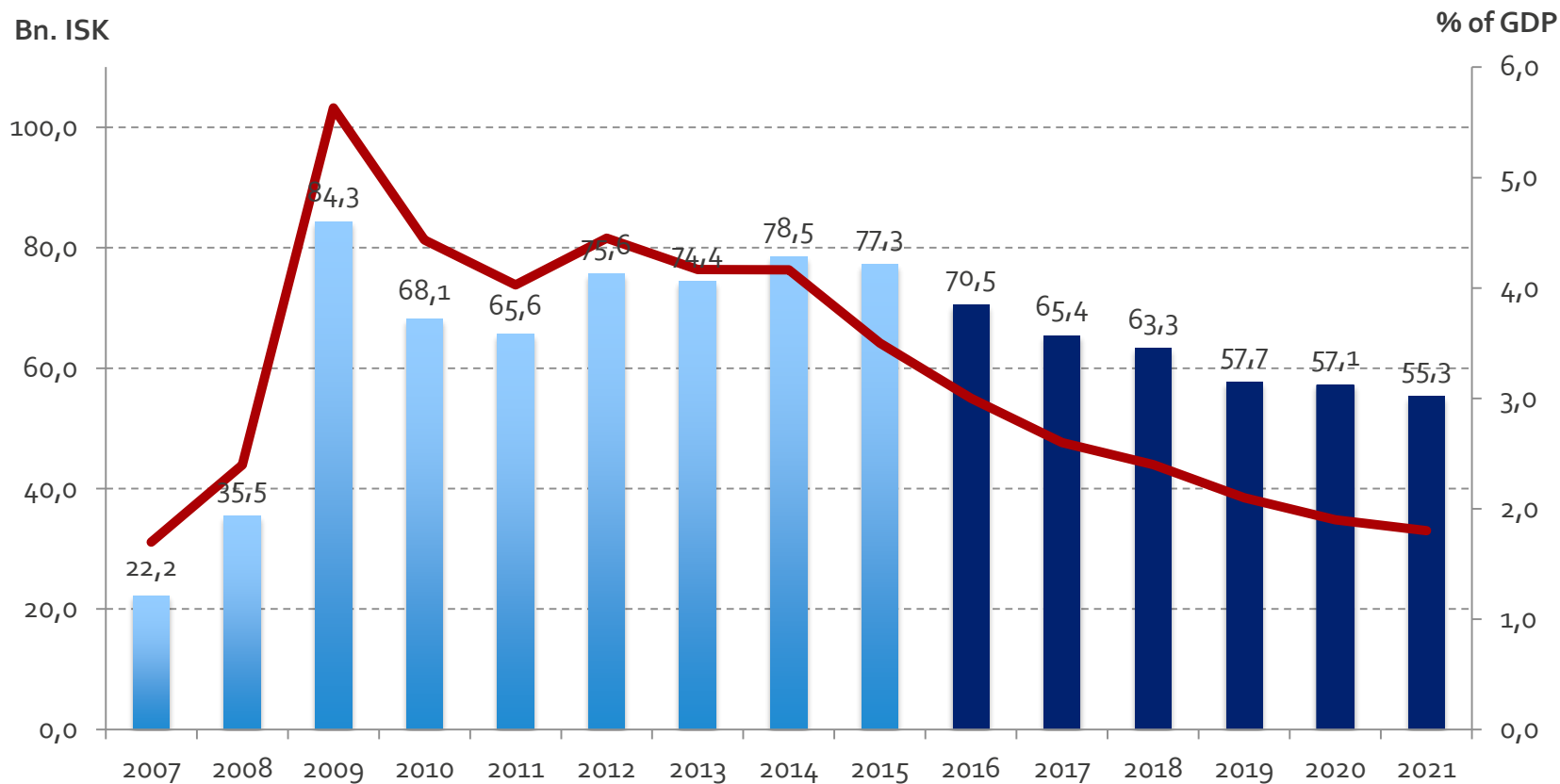
* excluding irregular items such as revenues from stability contributions



GROSS DEBT AND NET FINANCIAL POSITION



INTEREST EXPENDITURE 2007 - 2021



Interest expense (l.ax) % of GDP (r-ax)





CAPITAL ACCOUNT LIBERALIZATION

» The plan

- Winding-up of the failed banks' estates ✓
- The offshore kronas „problem“ (pending)
- Residents (pending)

» Capital flow management tools

» The offshore kronas

- Foreign currency auction held in June 2016
- Amount of accepted offers 83 b.kr. out of 188 b.kr.
- Rest is to kept in „blocked“ accounts

» Residents

- Bill in Parliament





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■ Thank you for your attention

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