

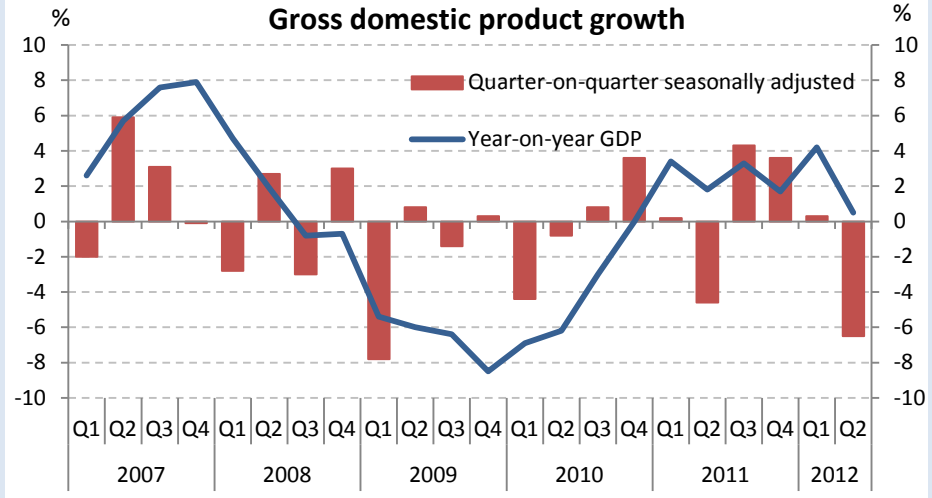
Icelandic Economic Situation – Overview

November 2012

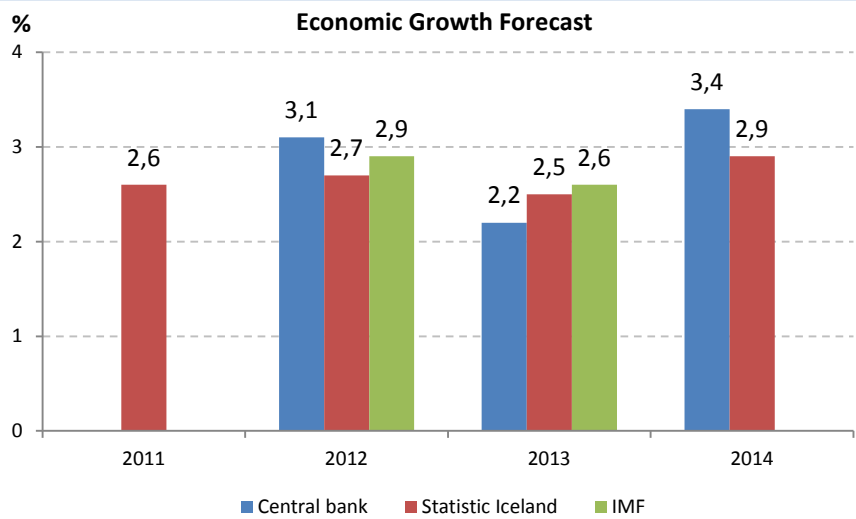


Prospects: Growth is stabilizing

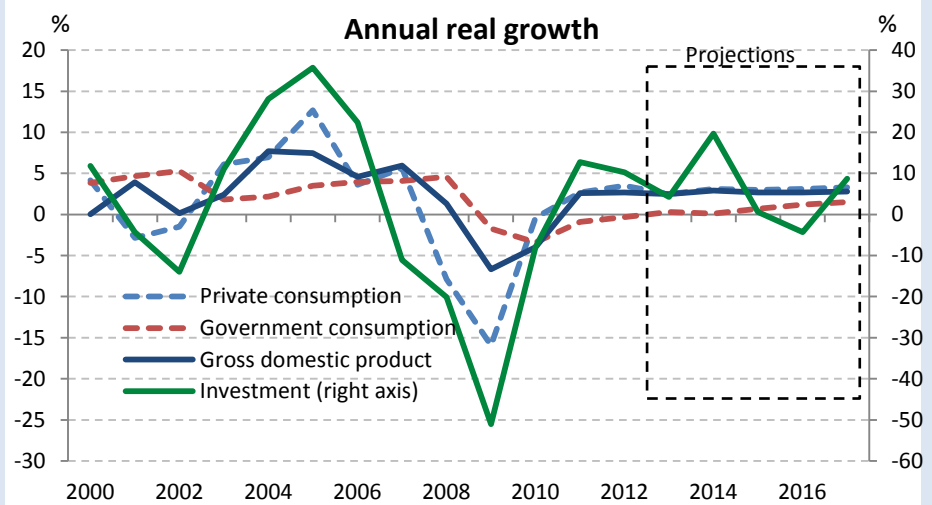
- Economy leveled off in 2010 before year-on-year economic growth returned in 2011 2.6%, less than last Statistic Iceland projection (July 2012)
- Investment and private consumption rose to in 2011 while government consumption contracted further
- Growth prospects are improving slowly. Medium term growth forecast around 2.7% per year. Growth is sensitive for big investments which are in preparation and therefore growth prospects may be enhanced.
- Risks are evenly balanced, with down side risk mostly related to international developments. Still the effects are minimal because of the capital control.



Source: Statistics Iceland



Source: Statistic Iceland, CBI, IMF

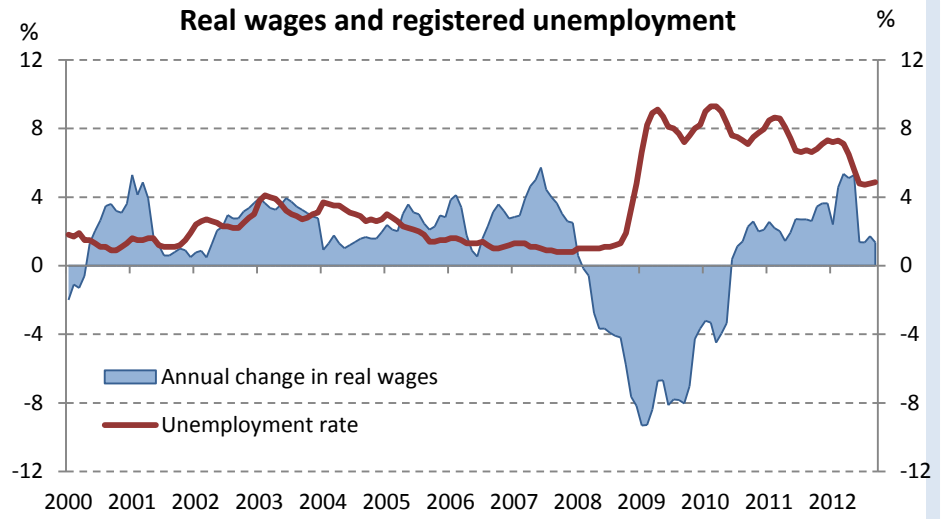


Source: Statistics Iceland

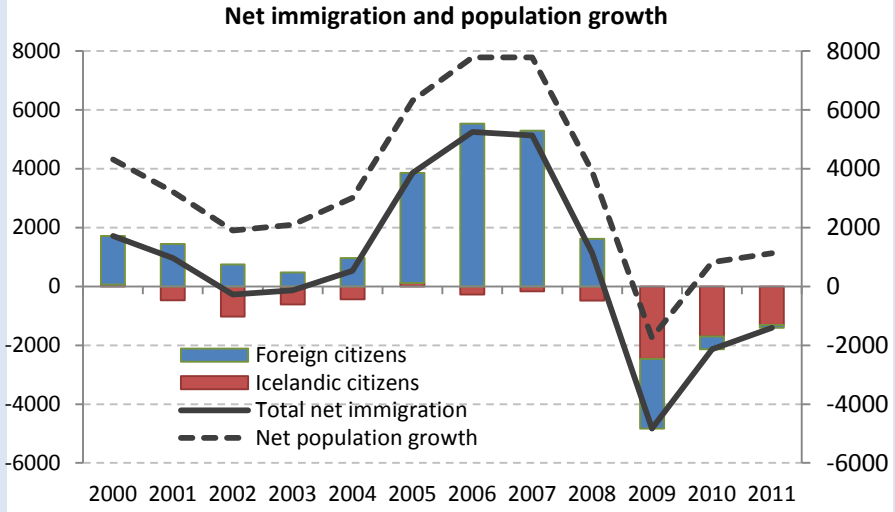


Labour market is improving

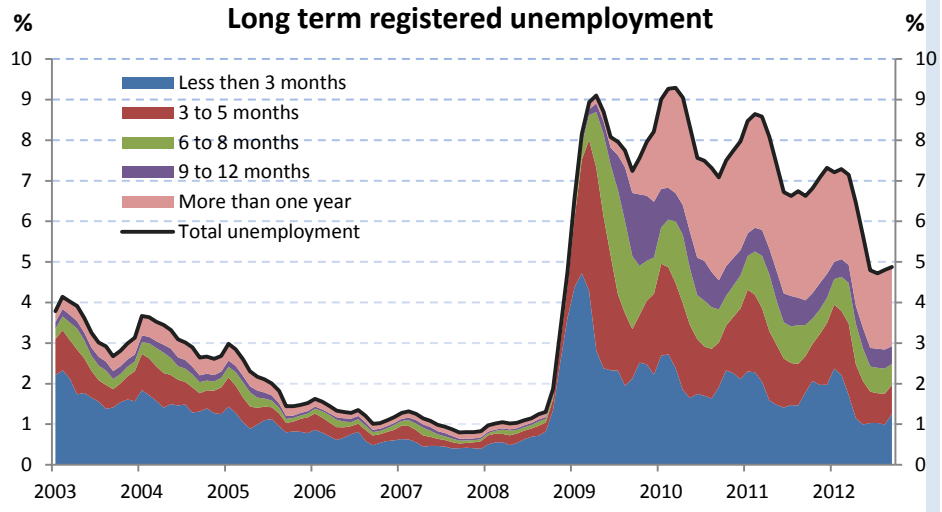
- Unemployment is now 4.9% and is falling. Projected to be 5.7% in 2012, 5.3% in 2013 and 4.9% in 2014
 - Increasing full-time work
- Participation rate has been fallen but remains high or around 80%
- Real wages have risen 1.4% last 12 months
 - Real disposable income increased 4% 2011
- Net emigration around 6,000 people in 2009 and 2010
- Net emigration around 1400 people in 2011 and decreases



Source: Statistics Iceland, Directorate of Labour

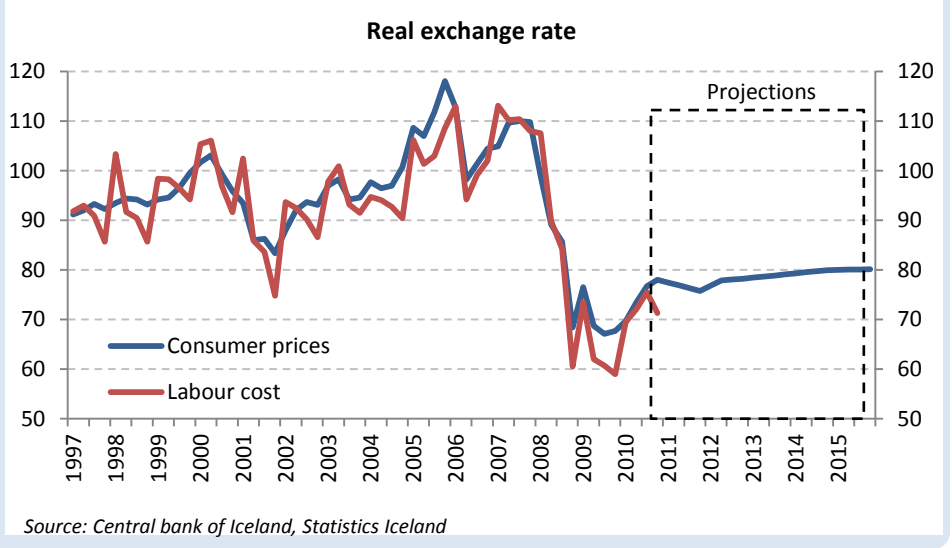
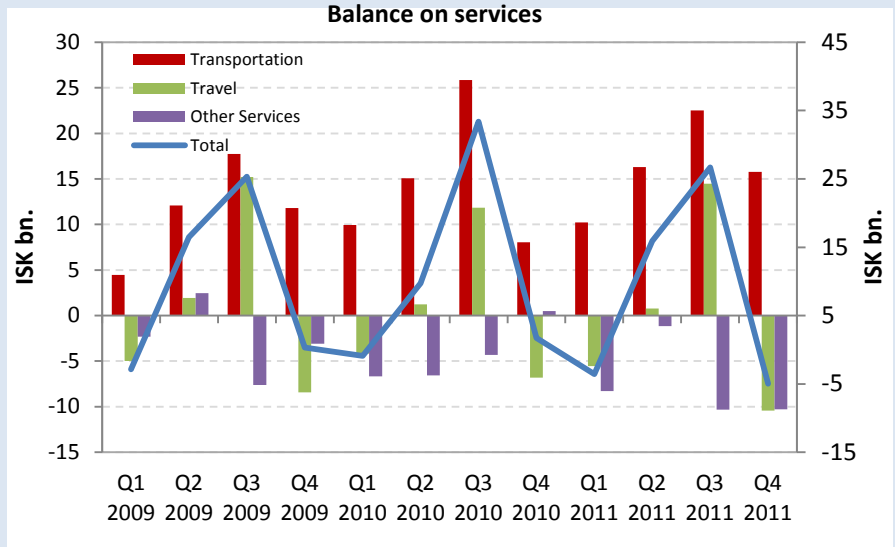
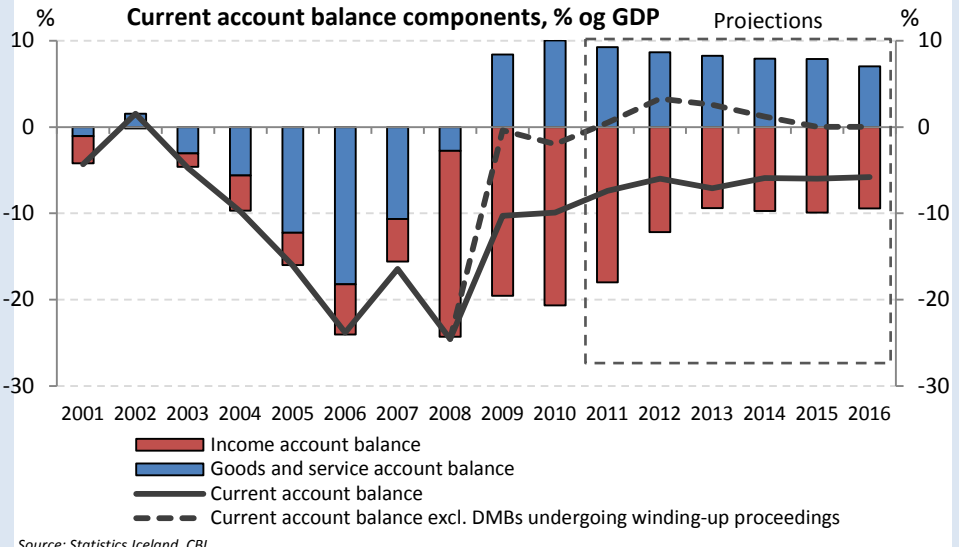


Source: Statistics Iceland



Positive trade balance

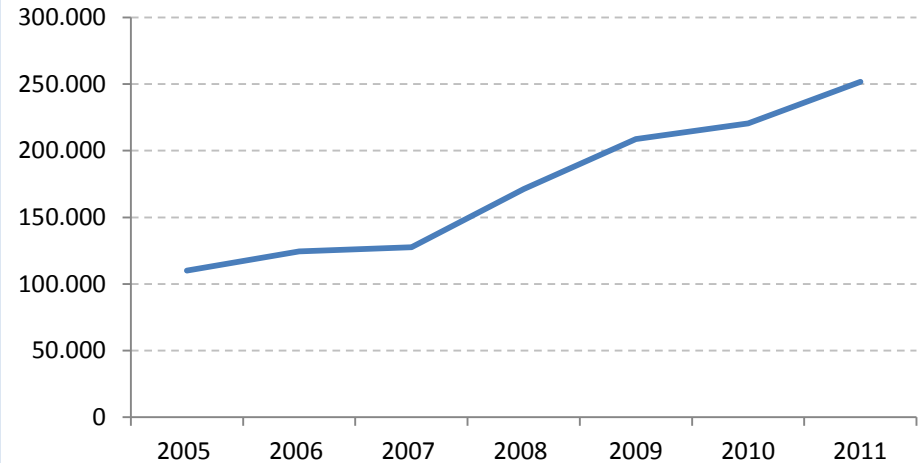
- Trade balance has been positive from September 2008
 - Export volumes remain rather rigid as production capacity in the aluminum industry is fixed and fully utilized and fishing quotas have fallen but have been increased again in this year.
- Certain sectors growing fast
 - Services and industry
- Low real exchange rate gives economy strong competitive position



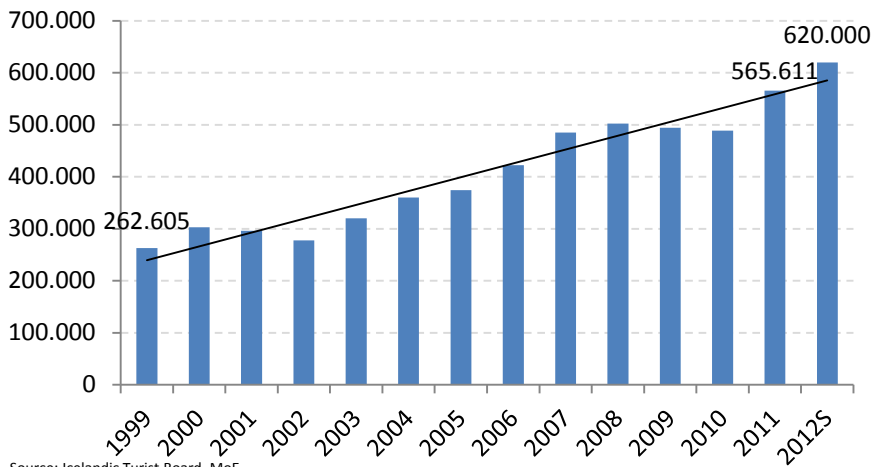
Traditional export sectors remain strong

- Fishing quotas have been increased because of good conditions in the sea and changed composition of fish catch partly due to migrant species
- Energy intensive sectors have expanded in recent years and are expected to grow further in coming years
- Tourism is growing fast, but is highly seasonal. Focus has been on changing seasonal pattern emphasizing growth in off season tourism
- Overall, the financial crisis did not result in a drop in exports

Export values (Fob) of fish products, m ISK

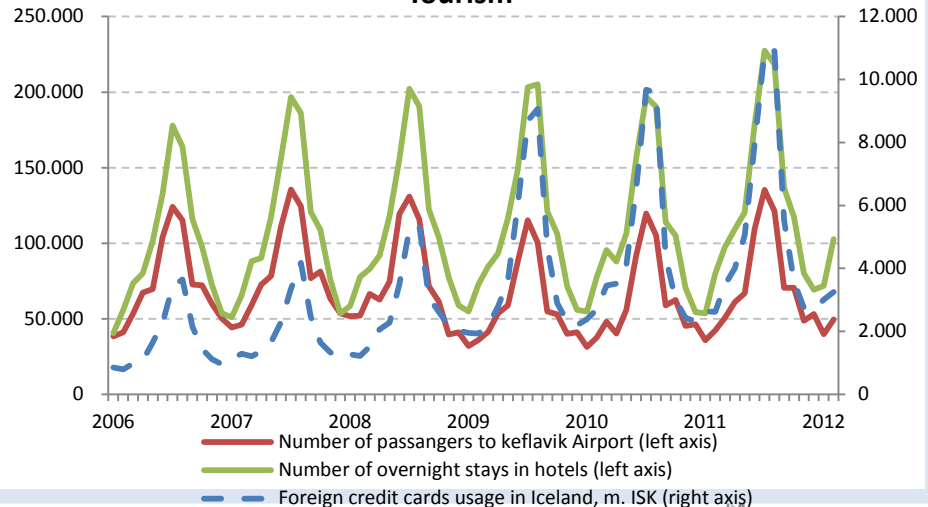


Number of foreign tourists in Iceland



Source: Icelandic Tourist Board, MoE

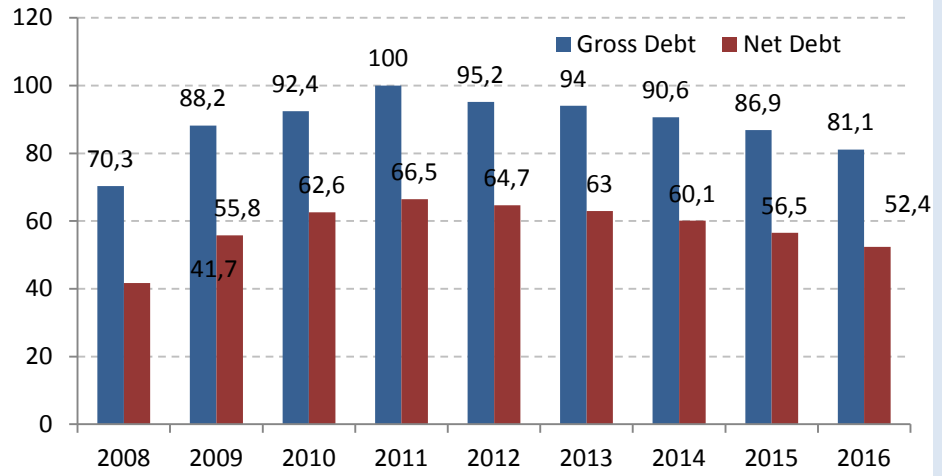
Tourism



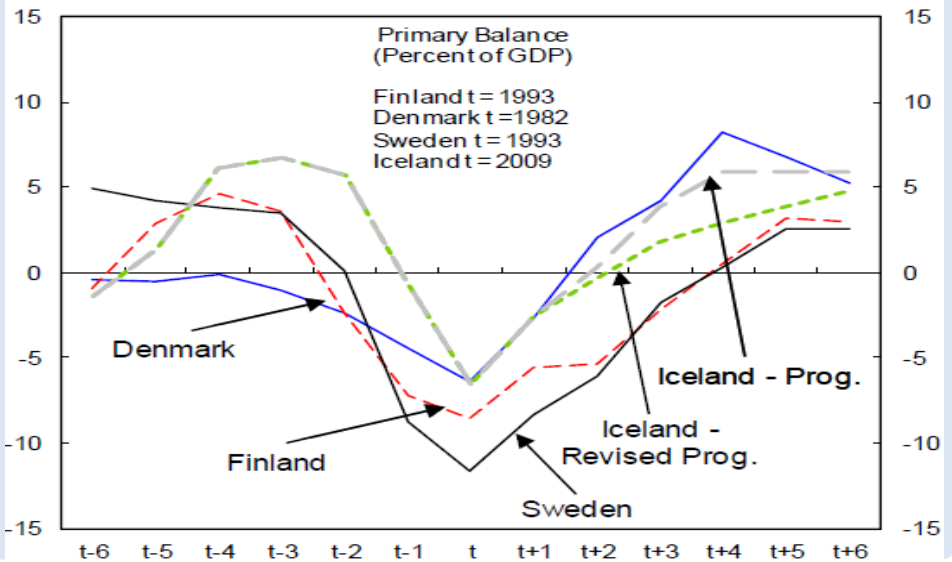
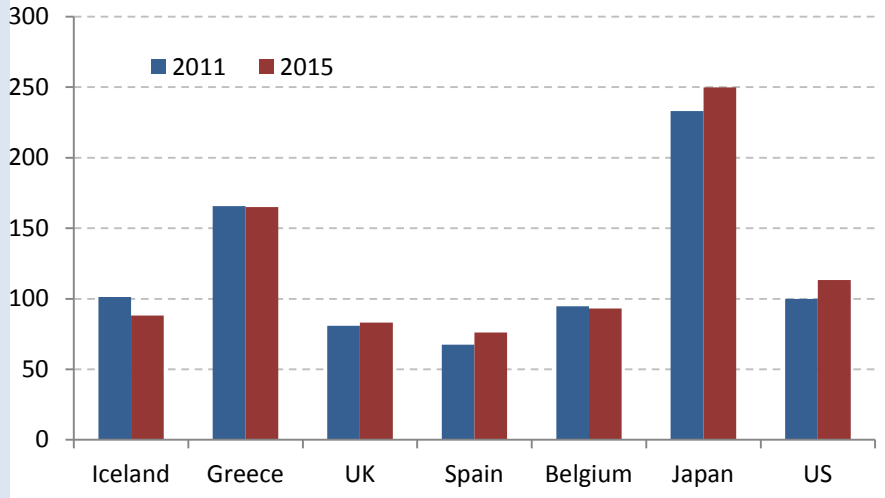
Large fiscal challenge

- 2011 fiscal performance on track
- Medium-term fiscal plan is being slightly revised but consolidation path remains intact. Primary surplus on 2012 and overall surplus in 2014
- Central and local government budget framework strengthened with longer horizons and fiscal rules
- Treasury and Central bank prepay foreign loans taken from IMF and Nordic countries
- In the wake of the Treasury international bond issue longer term-loans confirm Iceland's access to capital markets

General Government Debt, % of GDP

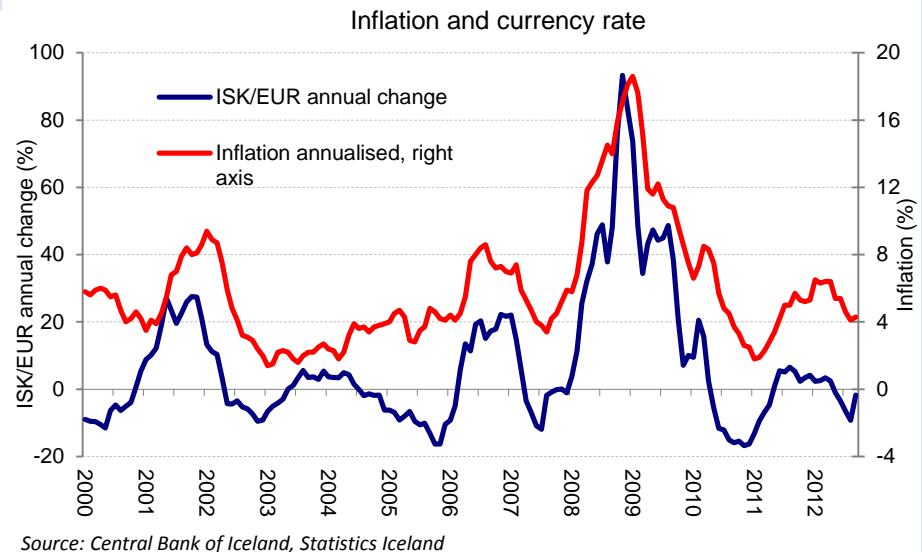
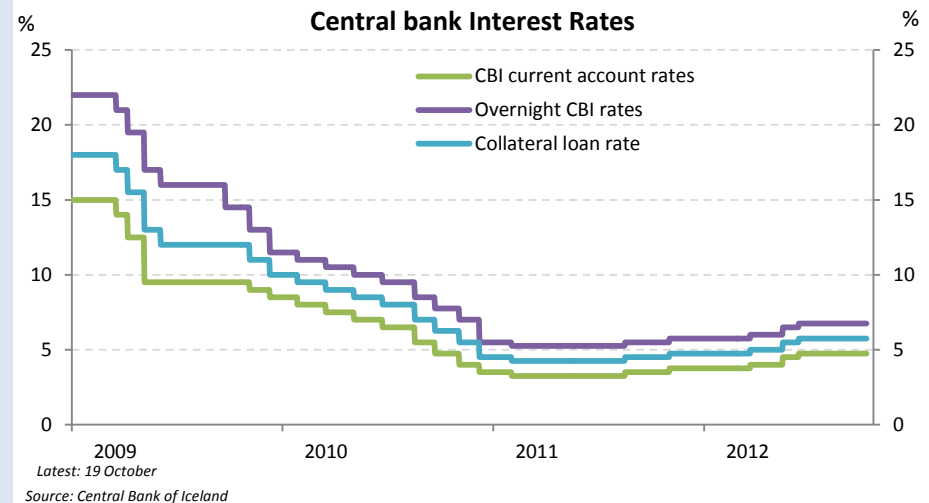


General Gov. Debt



Monetary policy and capital account liberalisation

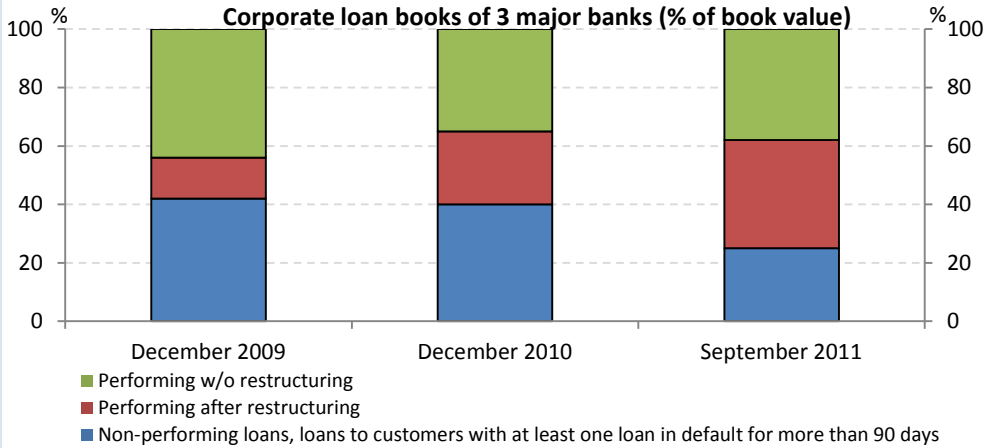
- Monetary policy continues to be guided by the paramount objective of preserving currency stability even though inflation targeting under a flexible exchange rate mechanism is to be reverted to over the medium-term
- Central Bank has raised the policy rate by 175 bp from 17 August 2011
- The Central Bank began modest regular purchases of foreign currency in August 2010 to strengthen the currency reserves
 - One-off transactions also used to strengthen reserves
 - Currency reserves strengthened through recovery of assets from the collapse of the banks
- Revised capital account liberalization strategy published in March 2011. First steps have already been taken. Recent turmoil abroad may set back the pace of liberalization
- Entire monetary framework is currently under review



Financial sector restructured

- Recapitalization of the banking sector is completed
 - Two of three major commercial banks majority owned by creditors of failed banks
 - Government has a majority stake in Landsbanki through a bank holding company
- Evaluation of future position of savings banks system
- Housing Financing Fund recapitalized and its supervision strengthened
- Corporate and household balance sheets are now at final stage. Debt restructuring has taken more time than initially planned but has gained pace
- Government policy has played a key role

	Government 's stake%	CAD%, end-Desember
Arion	13%	21.2%
Landsbankinn	81.33%	21.4%
Íslandsbanki	5%	22.6%



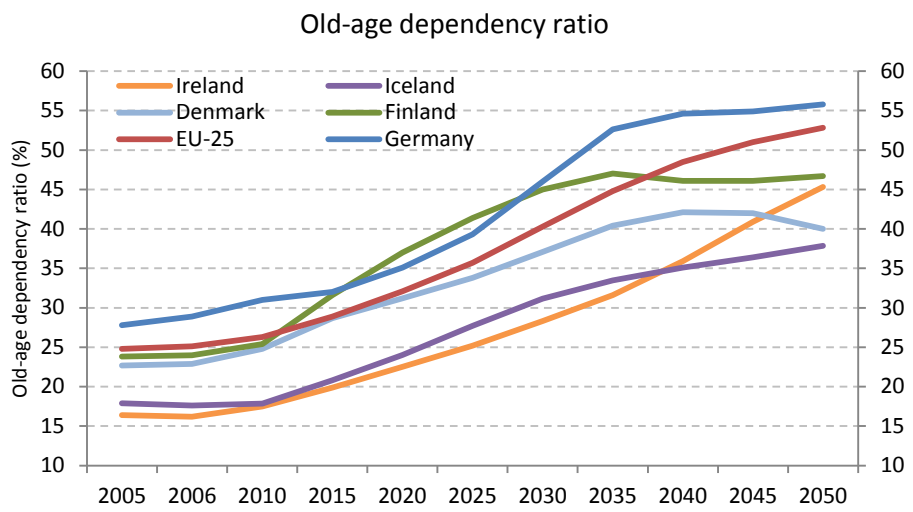
1. Parent companies. 2. Non-performing loans are defined as loans that have been in default for more than 90 days or deemed unlikely to be paid. If one loan taken by a customer is non-performing, all of that customer's loans are considered non-performing, i.e. cross-default method is used.

Source: Financial Supervision Authority

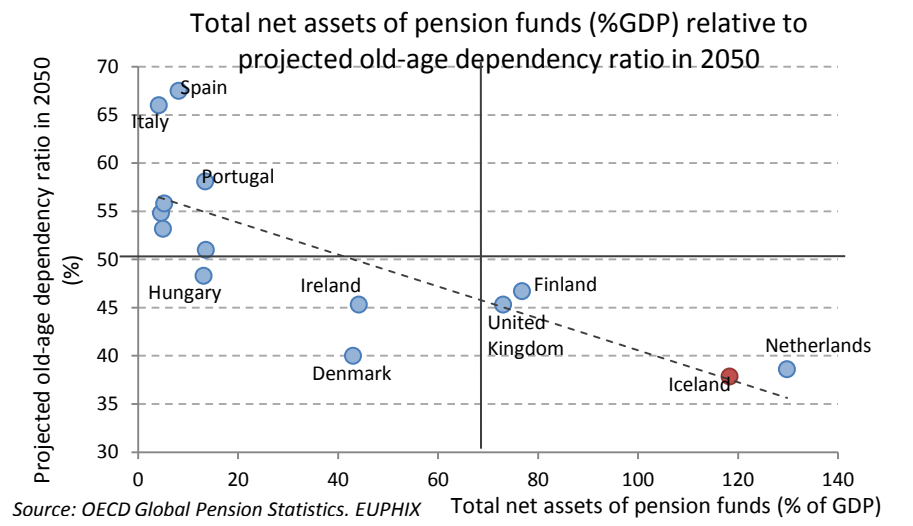
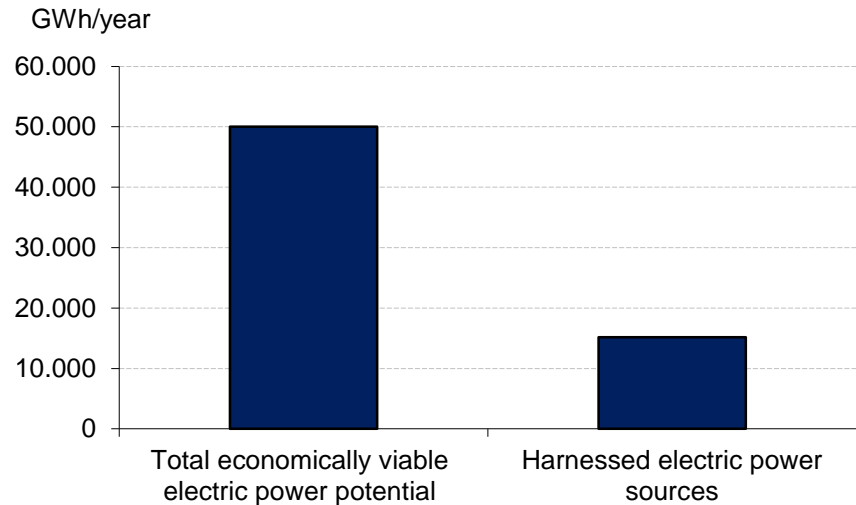


Key strengths remain valid

- Favorable demographics
 - Young population
 - Only 10% in the retirement age (> 67 years)
- Funded pension system
 - Pension fund assets approximately 120% GDP
 - Pension funds net investors in the economy
- Renewable natural resources
- Efficient infrastructure



Source: Euphix



Source: OECD Global Pension Statistics. EUPHIX

