

**EXECUTIVE  
BOARD  
MEETING**

SM/17/130  
Supplement 2

June 7, 2017

To: Members of the Executive Board

From: The Secretary

Subject: **Iceland—Staff Report for the 2017 Article IV Consultation—Draft Press Release**

Board Action: Executive Directors' **consideration** (Formal)

Tentative Board Date: **Monday, June 12, 2017**

Publication: Yes\*

Questions: Mr. Bhatia, EUR (ext. 37626)  
Mr. Arena, EUR (ext. 36735)  
Mr. Bower, EUR (ext. 36099)

**\*Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the press release will be published.**





INTERNATIONAL MONETARY FUND



Press Release No. 17/xxx  
FOR IMMEDIATE RELEASE  
June 14, 2017

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

### **IMF Executive Board Concludes 2017 Article IV Consultation with Iceland**

On June 12, 2017, the Executive Board of the International Monetary Fund (IMF) concluded its 2017 Article IV consultation<sup>1</sup> with Iceland.

Tourism continues to fire real GDP growth, which reached 7.2 percent in 2016 and is projected at almost 6 percent this year before tapering to around 2½ percent over the medium term. Bank credit to the nongovernment sector remains muted, growing by only 3.1 percent in 2016, yet is expected to gain pace going forward. Thus far, growth has not been driven by leverage but by exports, private consumption, and investment significantly financed by retained earnings.

Inflation, at 1.7 percent in May, continues to be moderated by subdued import prices and currency appreciation. The continued strong appreciation of the króna reflects a market response to the strong increase in external demand for tourism—much of which is likely to be permanent—and should help guide output to its sustainable long-run growth path. Iceland's current account surplus is projected to shrink modestly over time, with some export sectors suffering while others thrive.

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

## Executive Board Assessment<sup>2</sup>

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<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

## Iceland: Selected Economic Indicators, 2011–17

	2011	2012	2013	2014	2015	2016	2017 Proj
<b>National Accounts (constant prices)</b>							
Gross domestic product	2.0	1.2	4.4	1.9	4.1	7.2	5.8
Total domestic demand	3.5	1.5	0.7	5.2	5.9	8.7	6.4
Private consumption	2.5	2.0	1.0	2.9	4.3	6.9	6.4
Public consumption	-0.1	-1.8	1.0	1.7	1.0	1.5	1.3
Gross fixed investment	11.6	5.3	2.2	16.0	17.8	22.7	9.9
Exports of goods and services	3.4	3.6	6.7	3.2	9.2	11.1	6.9
Imports of goods and services	6.8	4.6	0.1	9.8	13.5	14.7	8.6
Output gap 1/	-1.8	-1.4	-0.4	0.0	0.5	1.9	2.2
<b>Selected Indicators</b>							
Nominal GDP (ISK bn)	1,702	1,778	1,891	2,006	2,214	2,422	2,632
Private consumption (percent of GDP)	51.8	53.4	52.3	52.2	49.8	49.0	49.1
Public consumption (percent of GDP)	24.7	24.5	24.3	24.2	23.6	23.1	23.1
Gross fixed investment (percent of GDP)	15.4	16.0	15.7	17.2	18.9	21.2	21.9
Unemployment rate	7.1	6.0	5.4	5.0	4.0	3.0	3.0
Employment	0.0	1.1	3.3	1.6	3.4	3.7	3.3
Labor productivity	0.5	0.7	0.6	0.0	0.8	3.5	2.5
Real wages	4.0	1.7	0.9	1.9	6.2	8.1	3.7
Nominal wages	8.0	6.9	4.8	4.0	7.9	10.1	5.9
Real GDP per capita (ISK mln)	3.5	3.5	3.6	3.7	3.8	4.0	4.2
Consumer price index (period average)	4.0	5.2	3.9	2.0	1.6	1.7	2.2
Consumer price index (end of period)	5.3	4.2	4.2	0.8	2.0	1.9	2.4
Nominal effective exchange rate 2/	-0.3	-2.4	1.5	5.8	3.0	12.2	...
Real effective exchange rate 2/	0.9	0.6	3.8	6.7	4.0	12.9	...
ISK/EUR	161	161	162	155	146	134	...
ISK/USD	116	125	122	117	132	121	...
Terms of trade	-2.8	-3.1	-1.9	3.3	6.7	2.4	1.2
<b>Money and Credit</b>							
Base Money	-20.7	32.0	0.3	-17.6	27.8	3.0	8.7
Deposit money bank credit	-23.8	-12.5	-6.3	-3.6	1.1	3.1	4.6
Broad money	7.5	-4.7	4.5	7.1	5.6	-4.6	7.8
CBI 7 day term deposit rate 3/	4.50	5.75	5.75	4.50	5.75	5.00	4.75
<b>Public Finance (General Government) 4/</b>							
Revenue	40.1	41.7	42.1	45.2	42.0	58.4	41.6
Expenditure	45.7	45.4	43.9	45.3	42.9	46.1	40.6
Balance	-5.6	-3.7	-1.8	-0.1	-0.8	12.4	1.0
Primary balance	-2.9	-0.4	1.6	3.6	2.9	15.7	3.4
<b>Balance of Payments</b>							
Current account balance 5/	-5.3	-4.0	6.0	4.0	5.5	8.0	6.6
Financial and capital account	4.8	-5.2	7.0	3.5	5.5	10.1	6.5
Central bank reserves (USD bn)	8.7	4.3	4.1	4.2	5.0	7.2	6.2

Sources: Statistics Iceland; Central Bank of Iceland; Ministry of Finance; and IMF staff projections.

1/ In percent of potential output.

2/ A positive (negative) sign indicates an appreciation (depreciation).

3/ For 2017, interest rate as of June 12.

4/ Figures for 2016 are preliminary.

5/ Actual data include the income receipts and expenditures of the bank estates, and accrued interest payments on intracompany debt held by a large multinational; projected data do not.