

2 February 2023



The Republic of Iceland Investor Presentation in relation to the EMTN programme

Republic of Iceland



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Introduction

Republic of Iceland

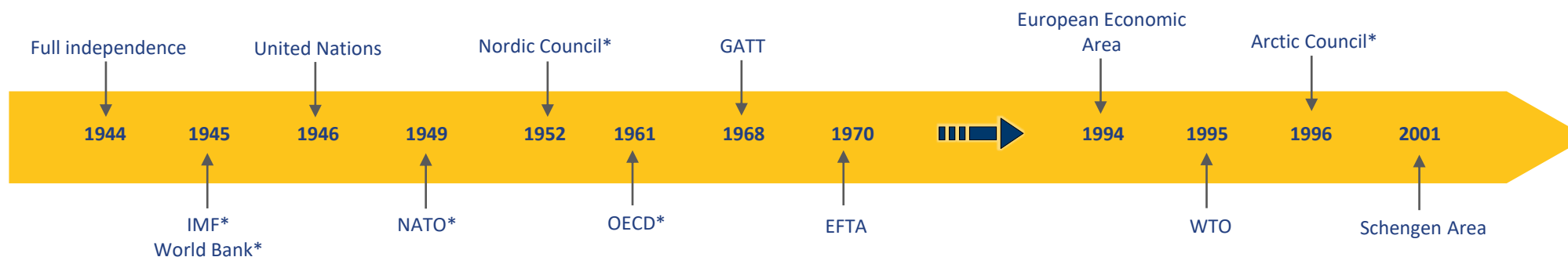


Key Facts about Iceland

Territory	• 103,000 sq. km / 39,756 sq. miles
Capital	• Reykjavik
Population	• 387,800
Currency	• Icelandic Króna (ISK). December 2022 monthly average: • 1 USD = 142.37 ISK • 1 EUR = 150.76 ISK
GDP per capita	• USD 69,422 (2021) ¹
Long term credit ratings	• Moody's: A2 • S&P: A • Fitch: A
Distance to Iceland	• Flying time 5.5 h. and 3 h. to New York and London respectively



Political Milestones



¹ Source: IMF. PPP, international dollars per capita. *Founding member.

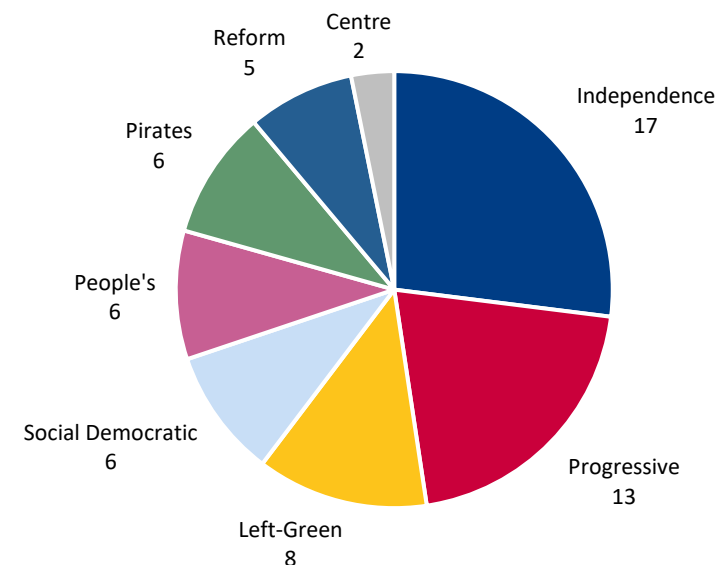
Composition of the Government

Following the parliamentary elections in September 2021, the second cabinet of a coalition government of the Independence Party, the Left-Green Movement and the Progressive Party was formed.

According to the Agreement on the Platform for the Coalition Government, emphasis will be on balancing economic, social and environmental factors, with special focus on:

- The Economy and Public Finances: The Government's priority will be to continue to promote economic and social stability.
- Climate Change: The ideology of sustainability, just transition and increased competitiveness will be the Government's guiding principles in the current transformation in the face of climate threats and technological change that is affecting all areas of society.
- Digital Transformation: Systematic efforts will be made to strengthen network and telecommunications security. Emphasis will be placed on increasing public confidence in information technology, personal data protection and the importance of freedom of expression.

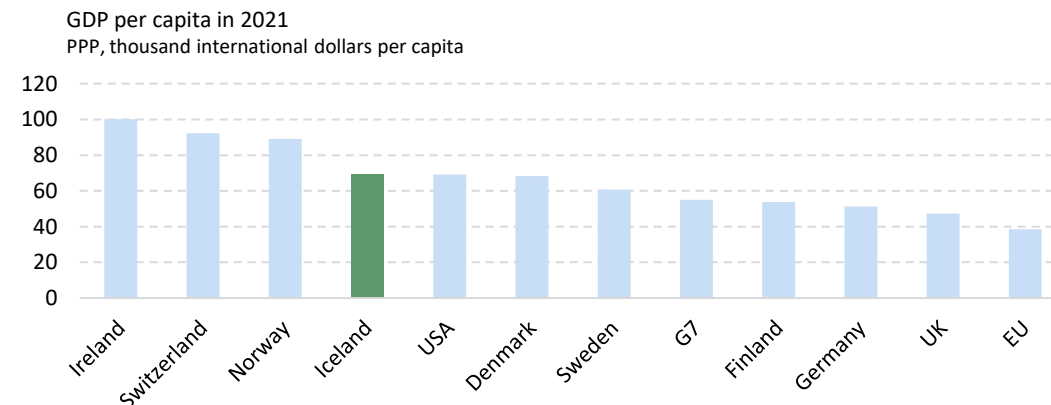
Composition of the newly elected Parliament
Number of parliamentary seats by party



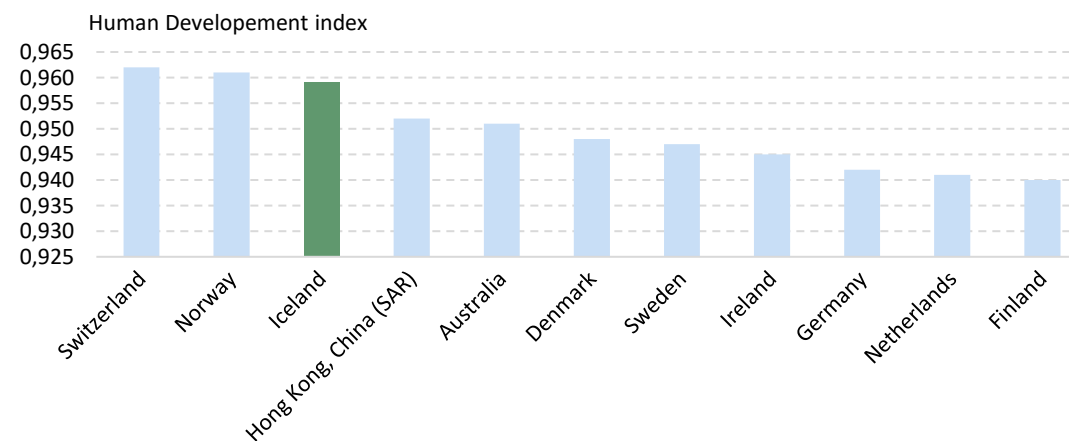


Economic and social indicators

- The economic and social situation in Iceland is strong according to various indicators.
- The Icelandic economy generated GDP of ISK 3,251 billion in 2021. Iceland's living standards are among the highest in the world. According to IMF data, GDP per capita measured in terms of purchasing power parities, amounted to USD 69,422 in 2021.
- The Human Development Index as compiled by the United Nations Development Programme is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions (life expectancy index, education index and GNI index).



Source: IMF. Current prices.

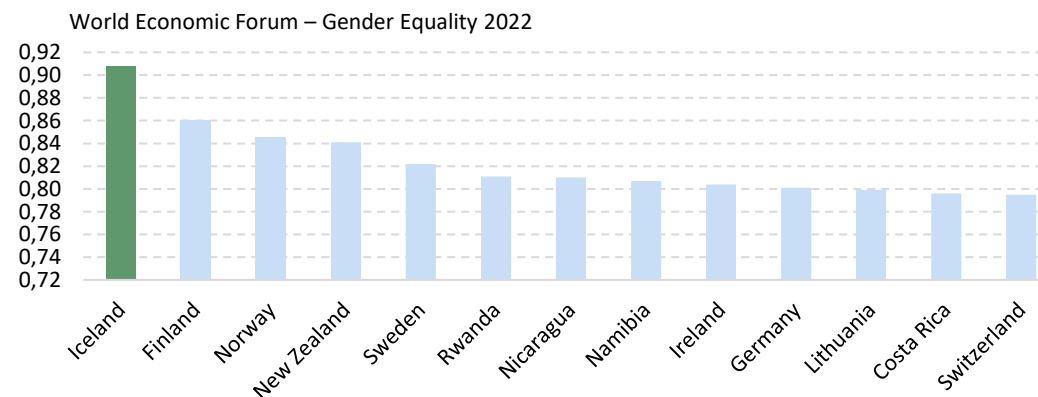


Source: The 2021/2022 Human Development Report. United Nations Development Programme.

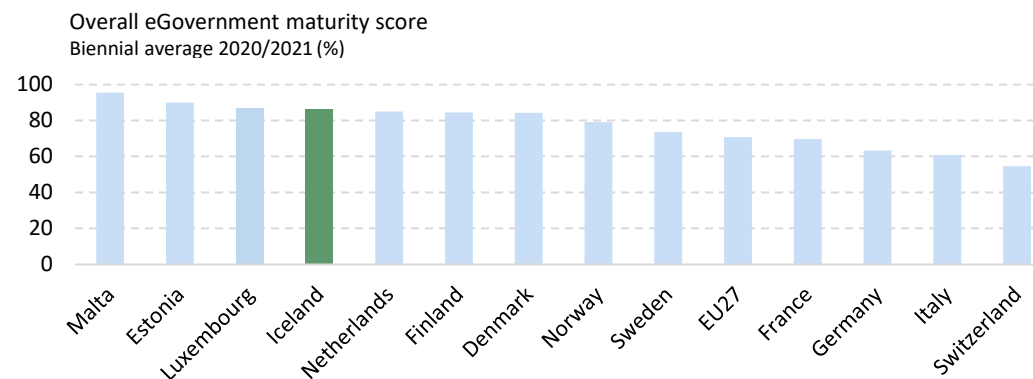


Gender equality and digital transformation

- The Global Gender Gap Index benchmarks the current state and evolution of gender parity across four key dimensions (Economic Participation and Opportunity, Educational Attainment, Health and Survival, and Political Empowerment). It is the longest-standing index which tracks progress towards closing these gaps over time since its inception in 2006.
- For the 13th consecutive year, Iceland (1st) tops the index with an overall score of 0.908 and high scoring performances in all subindexes. Iceland remains the only economy to have closed more than 90% of its gender gap.
- The eGovernment Benchmark 2022 as published by the European Commission compares how governments across Europe deliver digital public services. The study evaluates online public services on four dimensions (user centricity, transparency, key enablers and cross-border services), which consist of 14 underlying indicators.
- According to the governments Digital policy published in 2021, Iceland aims at being a leading nations in the world in digital services.



Source: Global Gender Gap Report 2022. World Economic Forum.



Source: European Commission. Directorate-General for Communications Networks, Content and Technology eGovernment Benchmark.



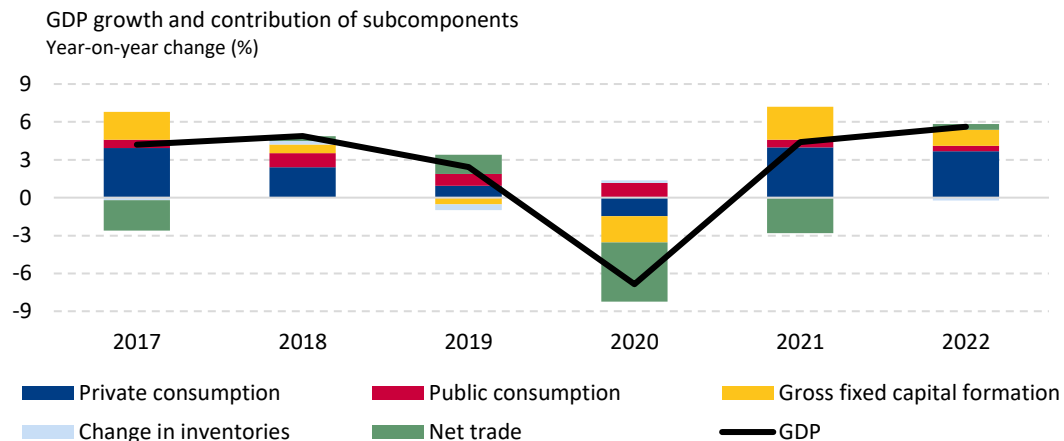
Macroeconomic developments

Republic of Iceland



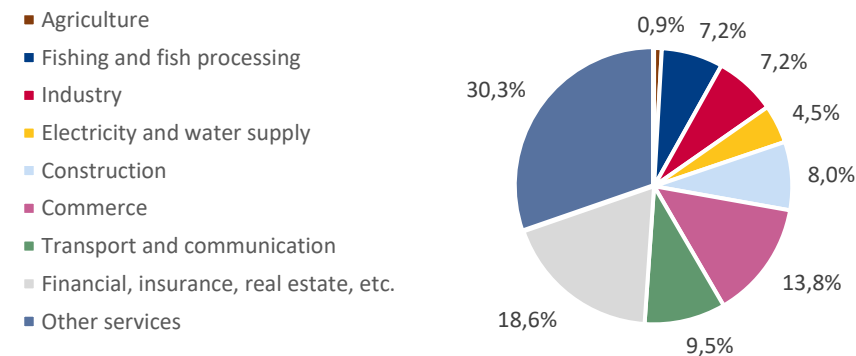
Gross domestic product

- GDP grew by 3.7% quarter-on-quarter in Q2/2022 and has risen by nearly 17% from its Q2/2020 trough. GDP in Q2/2022 was 2% above the level from Q4/2019, just before the pandemic struck. In nominal terms, however, it was nearly 15% above the end-2019 level by Q2/2022.
- GDP grew by 6.9% year-on-year in Q2/2022. Year-on-year GDP growth therefore softened relative to the previous quarter, when it had measured 8.0%, reflecting the contraction in investment and a negative contribution from inventories, which outweighed the surge in private consumption and the contribution from net trade.
- The weight of tourism (not shown in the breakdown in the pie-chart), is a part of several subcomponents. Statistics Iceland measured tourism as being approximately 8% of GDP in 2019.



Source: Statistics Iceland, Central Bank of Iceland. GDP for Q4 2022 is according to the Central Bank of Iceland's forecast.

Breakdown of GDP by sector 2021

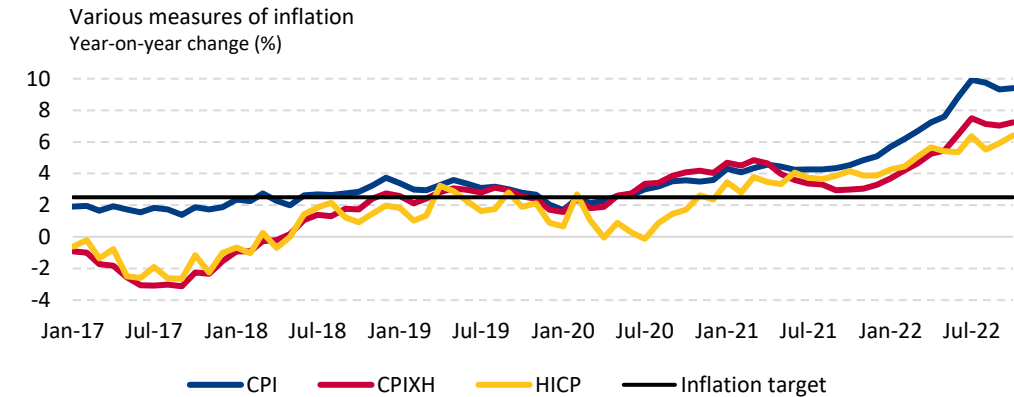


Source: Statistics Iceland.

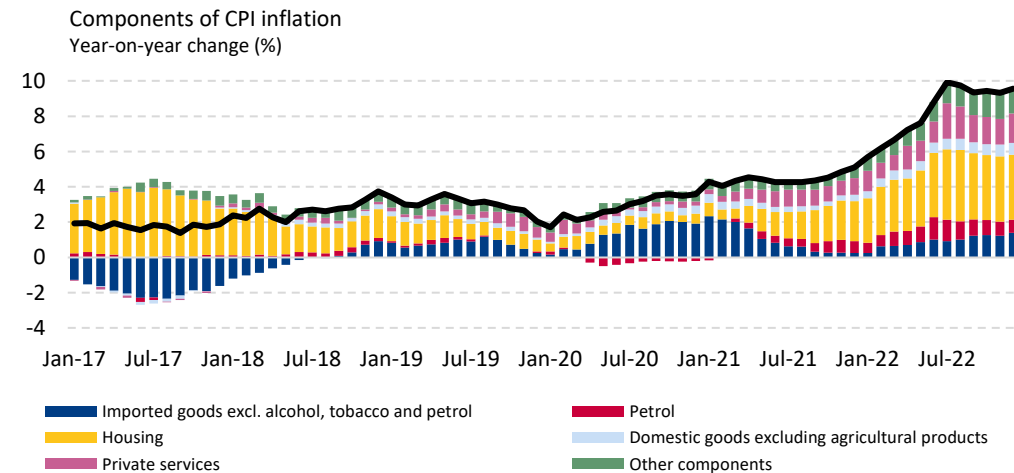


Inflation (1/2)

- Inflation measured 9.7% in Q3/2022. The housing component remained the principal driver of the rise in the CPI during the quarter, owing to a rapid increase in house prices in July 2022, although the price of miscellaneous services and food rose as well.
- Inflation has been above the Central Bank of Iceland's inflation target for more than two years. It measured 9.4% in October 2022, after peaking at 9.9% in July. An abrupt turnaround in the housing market has played a large role in the past few months' slowdown in inflation. Inflation has also fallen since last summer in terms of measures that exclude the cost of owner-occupied housing.
- Inflation according to the CPI excluding housing measured 7.2% in October 2022, while HICP inflation was 6.4%, and the difference between these two measures and the CPI has narrowed in the recent past.
- Given the recent slowdown in housing market activity, the composition of inflation is likely to continue changing in the near future. The contribution of the housing component to headline inflation has declined since July 2022, after having increased virtually without interruption since the beginning of 2021. This is offset by a growing contribution from goods price increases.



Source: Statistics Iceland, Central Bank of Iceland.



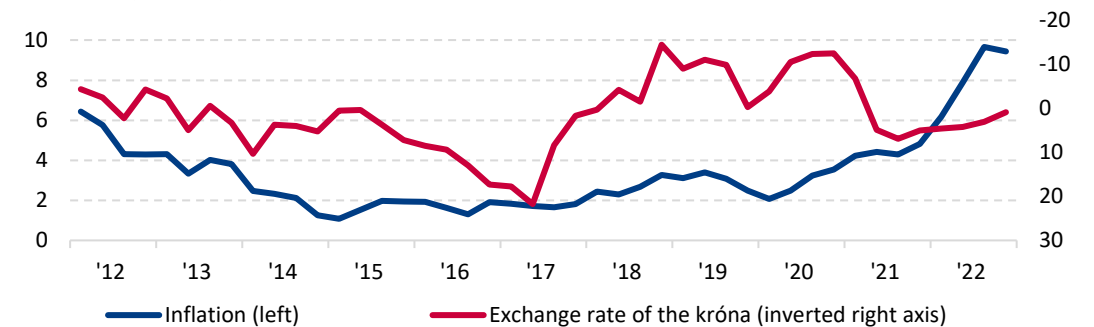
Source: Statistics Iceland.



Inflation (2/2)

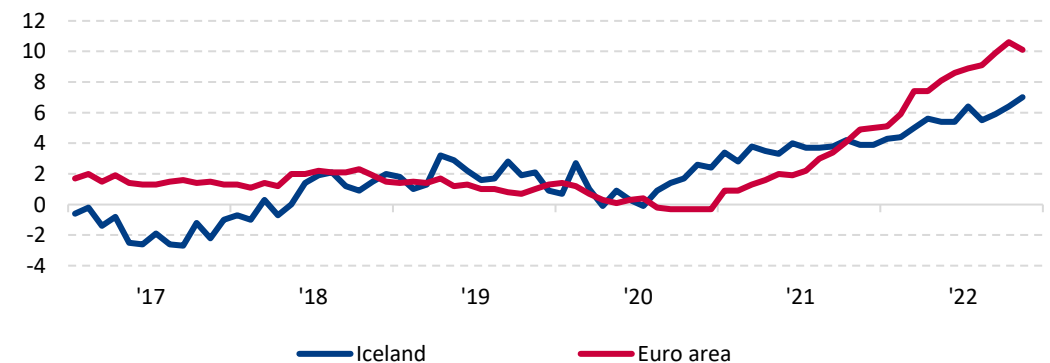
- The energy crisis that struck Europe in the wake of Russia's invasion of Ukraine continues to deepen, and global inflation has surged. Households' cost of living and firms' operating costs have therefore risen sharply and financial conditions have worsened.
- Developments in global inflation are still strongly affected by steeply rising energy prices, although food prices are also up sharply year-to-date. The increase, particularly the surge in European natural gas prices, is due largely to the war in Ukraine. It is offset in part by the recent decline in oil and petrol prices, in accordance with developments in global market prices.
- The price of other important expenditure items has also continued rising apace, and inflation is growing more and more widespread. In October 2022, goods prices excluding energy and food had risen by an average of 6% year-on-year in trading partner countries.
- Among European countries, Iceland has the highest share of renewables in its energy mix, and the country does not rely on natural gas.

Inflation and exchange rate of the króna
Year-on-year change (%)



Source: Statistics Iceland, Central Bank of Iceland. Based on the narrow trade-weighted exchange rate of the króna. Quarterly data.

Inflation in Iceland and Europe
Year-on-year change (%)

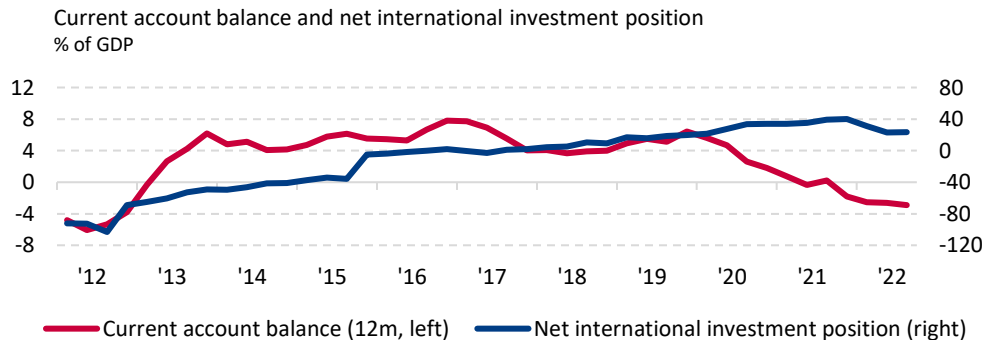


Source: Statistics Iceland. Harmonised indices of consumer prices. Monthly data.



Foreign trade and external position

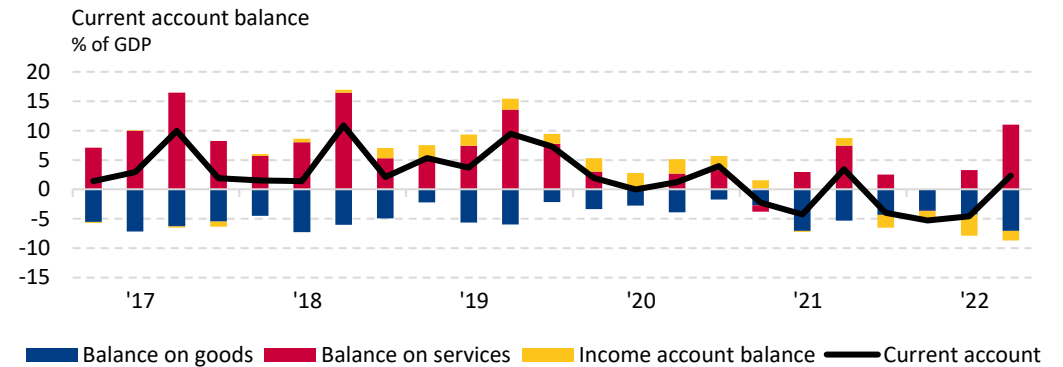
- The outlook is for the current account balance to show a deficit of 2.1% of GDP in 2022 compared to a 1.6% deficit in 2021. The tourism industry has made a rapid recovery in 2022 and the service balance improved, although counteracted by a contraction of other exported services than tourism. The goods balance has deteriorated due to the continued robust growth in imported goods while growth in goods exports remained modest.
- Iceland's net international investment position was positive by 23.6% of GDP at the end of Q3/2022 compared to 40% of GDP at the end 2021. The deterioration between years is mainly due to price decreases in foreign securities markets and appreciation of the króna.



Source: Statistics Iceland, Central Bank of Iceland. Quarterly data. 2008Q4-2015Q4: NIIP is based on underlying position, i.e. adjusted for the effects of settling the failed banks' astates and assuming equal distribution of assets to general creditors.



Source: Statistics Iceland. Quarterly data.

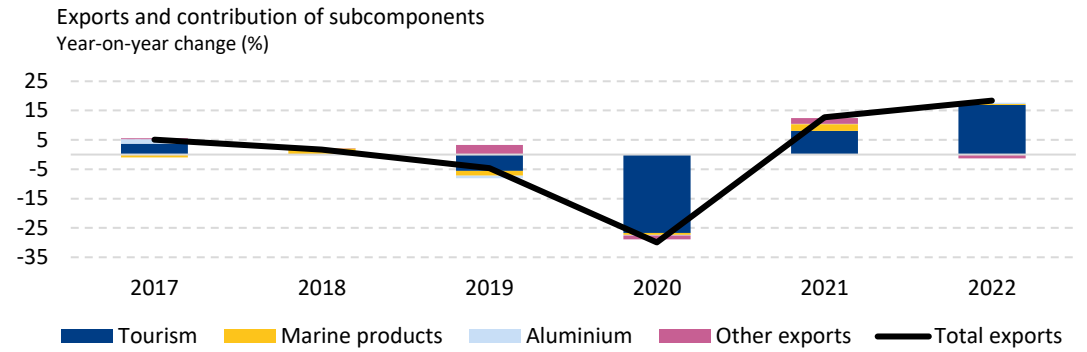


Source: Statistics Iceland, Central Bank of Iceland. Quarterly data.

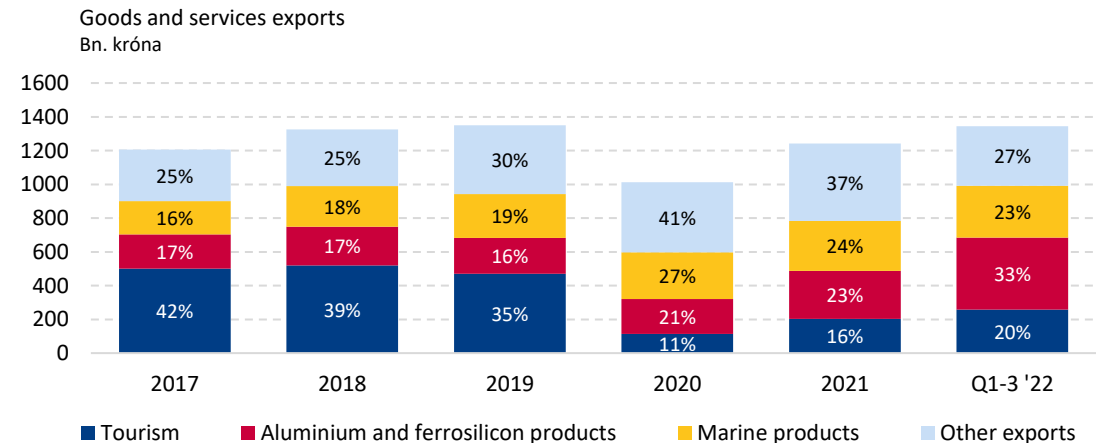


Composition of exports

- Exports of goods and services grew by 4.4% quarter-on-quarter in Q2/2022 and by 23.3% year-on-year in the first half of 2022.
- This surge in services exports reflects the continuing recovery of tourism, which picked up strongly in Q2/2022, driven by increased flight offerings to and from Iceland and a decline in COVID-19 case numbers. Domestic airlines' passenger transport revenues therefore surged in Q2/2022, and total revenues from tourism rose to 94% of the 2019 level (at constant exchange rates). Spending per tourist was also well above the pre-pandemic average, and tourists generally stayed longer in the country.
- The price of Icelandic marine products has risen continuously since Q2/2021, in tandem with improving market conditions as the effects of the pandemic tapered off. Elevated uncertainty about marine product supplies in the wake of the Western sanctions on Russia also stimulated demand for Icelandic products and fostered further price increases.
- Foreign-currency prices of Icelandic marine product exports rose by nearly a fourth year-on-year in Q2/2022, to roughly a fifth above the 2019 average.
- The price of Icelandic aluminium exports continued to rise in Q2/2022, to more than 60% above the Q2/2021 level. Prices sagged again in Q3/2022, though, and are expected to fall farther in Q4/2022. Aluminium export prices are forecast to average nearly a third higher in 2022 than in 2021.
- The price of other goods exports also rose markedly between years, particularly silicon products and farmed fish.



Source: Statistics Iceland, Central Bank of Iceland. Because of chain-volume linking, the sum of components may not equal total exports. GDP for Q4 2022 is according to the Central Bank of Iceland's forecast.



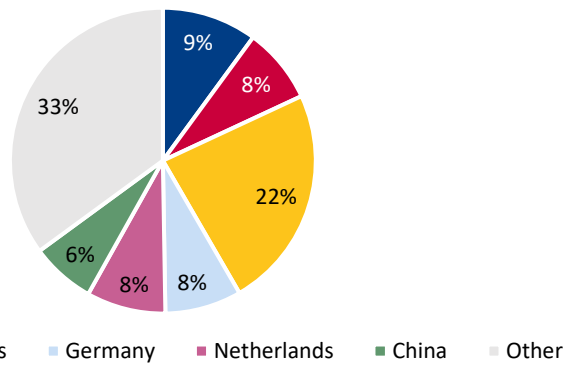
Source: Statistics Iceland, Central Bank of Iceland. Annual and cumulative quarterly data.



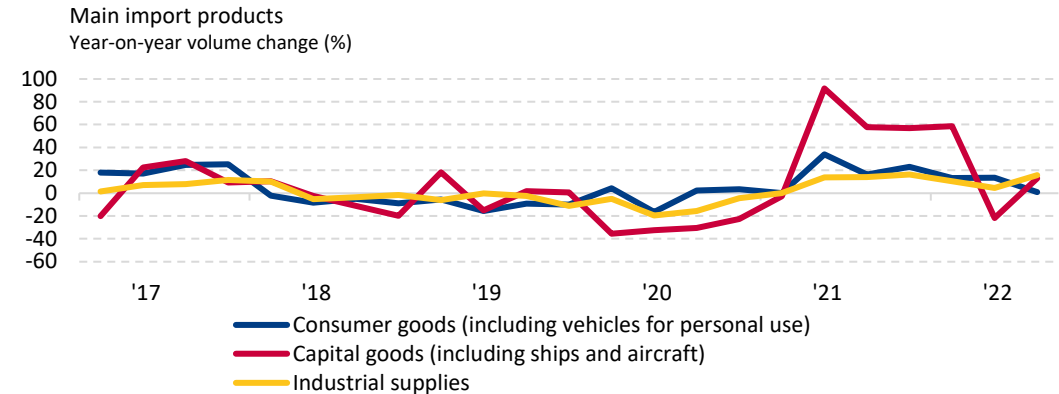
Imports and tourist arrivals

- Tourist numbers continued to rise alongside increased flight offerings in Q3/2022. Almost 654,000 foreign nationals departed via Keflavík Airport during the quarter, almost as many as in Q3/2019. Indicators of tourists' spending while in Iceland suggest that average spending declined marginally between Q2 and Q3/2022 and moved closer to the prepandemic level.
- Part of the recent increase in spending stems from longer stays in Iceland than during the pre-pandemic period, as the number of overnight stays in Q3/2022 was well above the total for the same period in 2018 and 2019. Furthermore, the nationality distribution remained different from that in the pre-pandemic period, with a larger number of European travellers offsetting the small number of visitors from Asia.

Share of imports by country, 2021

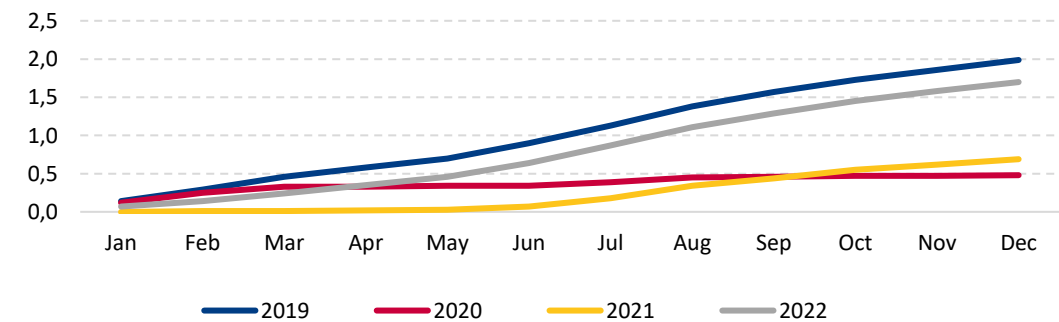


Source: Statistics Iceland.



Source: Statistics Iceland. Quarterly data.

Foreign nationals' departures via Keflavík Airport
Cumulative total for each year, thousands



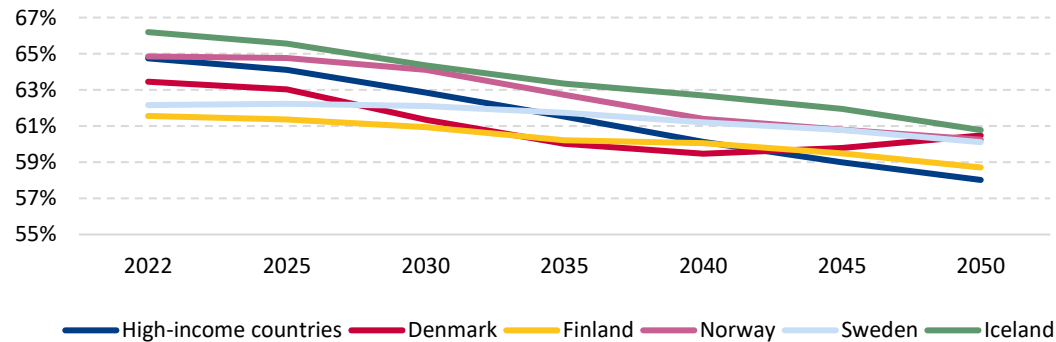
Source: Icelandic Tourist Board, Central Bank of Iceland.



Labour market (1/2)

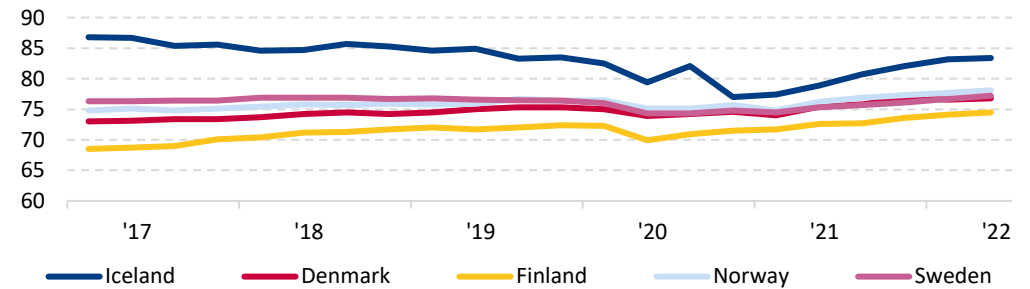
- Labour force participation rate in Iceland has been the highest among European countries while the unemployment rate has been among the lowest. As in many advanced economies, employment has shifted towards services.
- Labour participation rate measured 79.3% during Q3/2022. Unemployment therefore rose by 0.5 percentage points between quarters, to 4%, which is similar to the pre-pandemic level and still low in historical terms.
- Long-term unemployment surged in the wake of the Covid-19 pandemic but then began to fall rapidly from mid-2021 onwards, in part because of special hiring subsidies. Since June 2022, 1.2% of the labour force have been on the unemployment register for more than twelve months, roughly the same as before the pandemic.

Projected share of 15–64-year-olds in total population



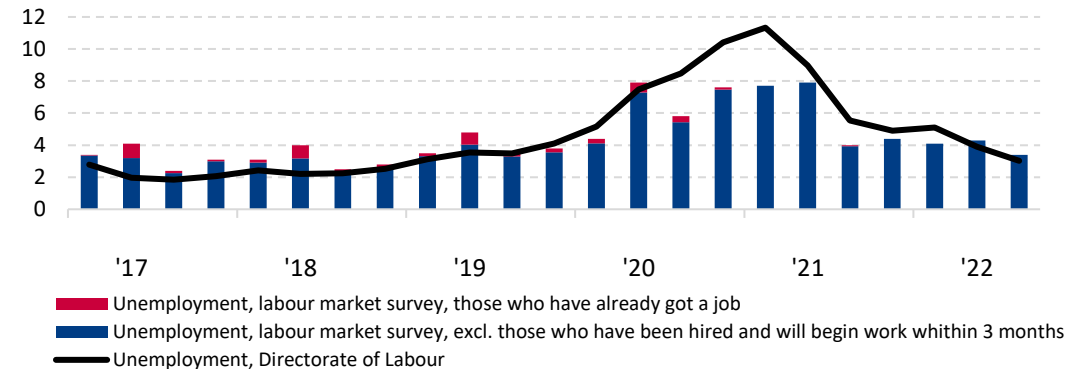
Source: United Nations Population Projections.

Employment rate in the Nordic countries
% of population aged 15-64



Source: Eurostat.

Unemployment rate
% of labour force

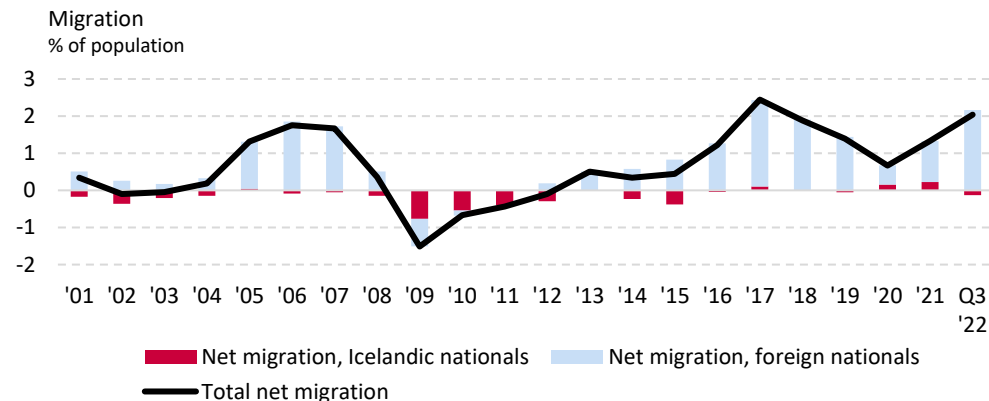


Source: Statistics Iceland, Directorate of Labour.

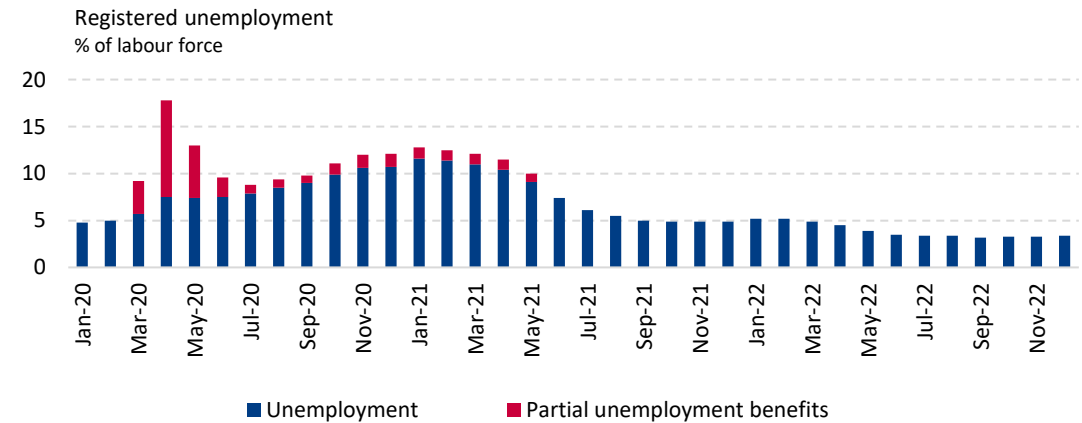


Labour market (2/2)

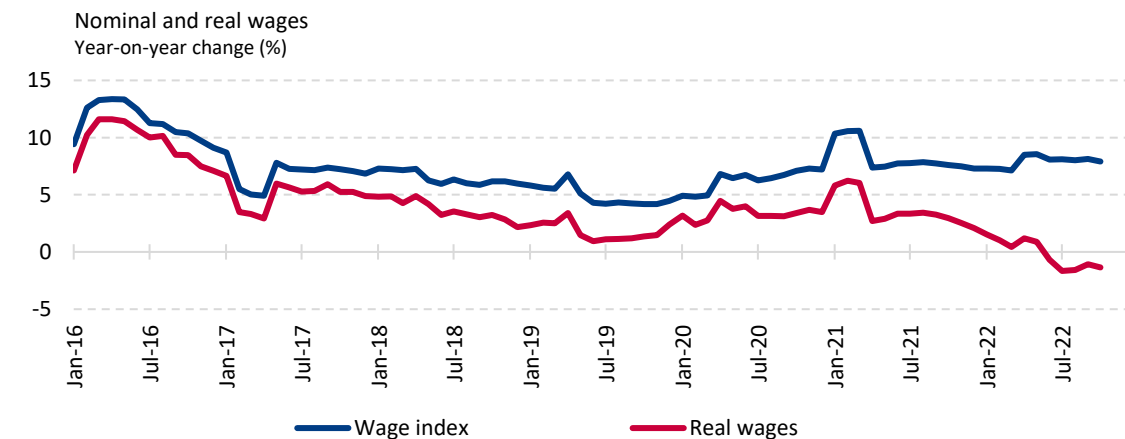
- Following the 2004 enlargement of the European Economic Area, migration of foreign nationals in tandem with the business cycle has substantially increased the flexibility of the Icelandic labour market.
- Migration of foreign workers continues to be in tandem with the recovery of the domestic economy, owing to the large number of job vacancies that have not yet been filled.
- Iceland’s population grew by 2.8% year-on-year in Q3/2022, and net migration of foreign nationals was positive by 3,410 during the quarter. This comes on top of just over 3,500 foreign nationals who migrated to Iceland in Q2/2022, in the largest single-quarter influx in the history of Statistics Iceland’s quarterly population data. It was marginally offset by net outward migration of Icelandic nationals.
- The composition of the immigrant group is different from that in previous waves of labour importation as a considerable portion of the immigrants are Ukrainian refugees, and it is therefore uncertain how the participation rate will be affected. Furthermore, it is highly uncertain how many more people will come to Iceland and how many will return home once the war ends.



Source: Statistics Iceland. Annual and cumulative quarterly data.



Source: Directorate of Labour. Monthly data.

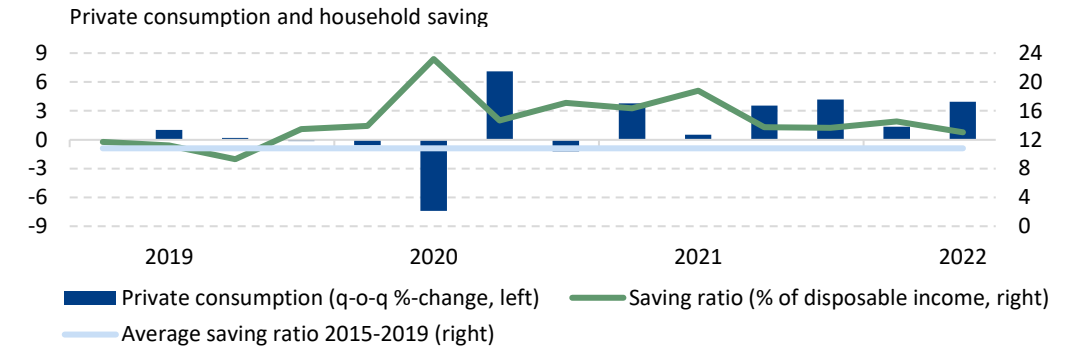


Source: Statistics Iceland. Real wages are the wage index deflated by the CPI. Monthly data.

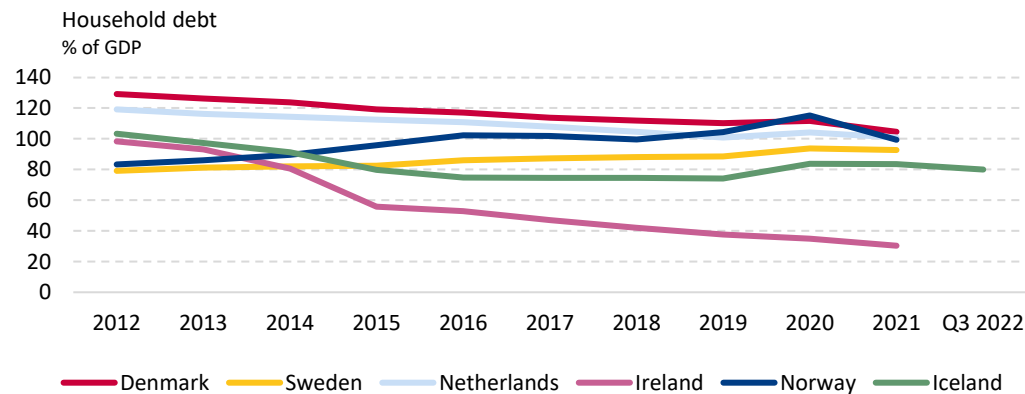


Private consumption and households

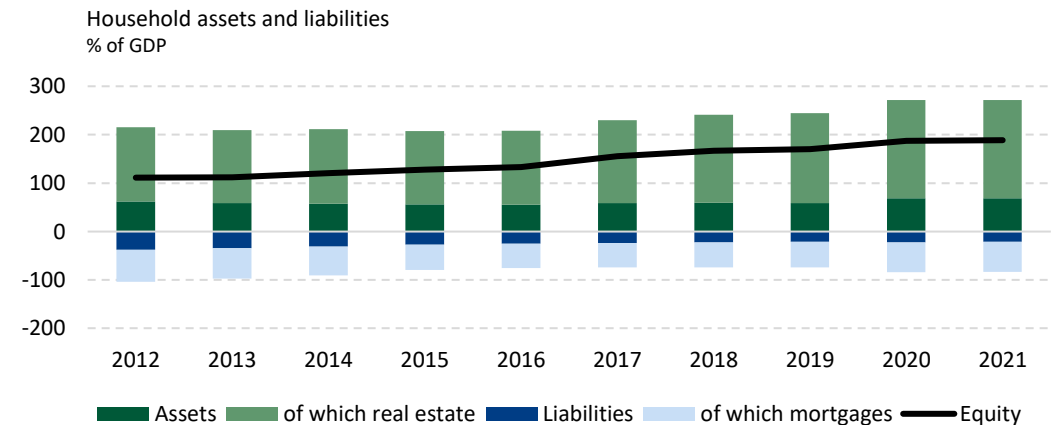
- Seasonally adjusted household consumption spending grew by 4% quarter-on-quarter in Q2/2022. Private consumption increased 13.5% between years, the strongest year-on-year growth rate in a single quarter since Q2/2005.
- Year-on-year growth in household deposits measured 9% in Q3/2022, picking up from the previous quarter after having been on the decline since the beginning of 2021.
- Household indebtedness has been largely unchanged in recent years. Households' arrears are limited and have not increased despite large interest rate hikes. Household asset position has also improved with rising asset prices, and their saving ratio is relatively high in historical terms.
- In the first half of the year, private consumption grew 11.4% year-on-year, reflecting households' generally strong position, which was driven by a significant increase in real disposable income and growing net household wealth.



Source: Statistics Iceland, Central Bank of Iceland. The saving ratio is calculated based on the Central Bank of Iceland's disposable income estimates. Seasonally adjusted figures.



Source: Eurostat, Statistics Iceland, Central Bank of Iceland.

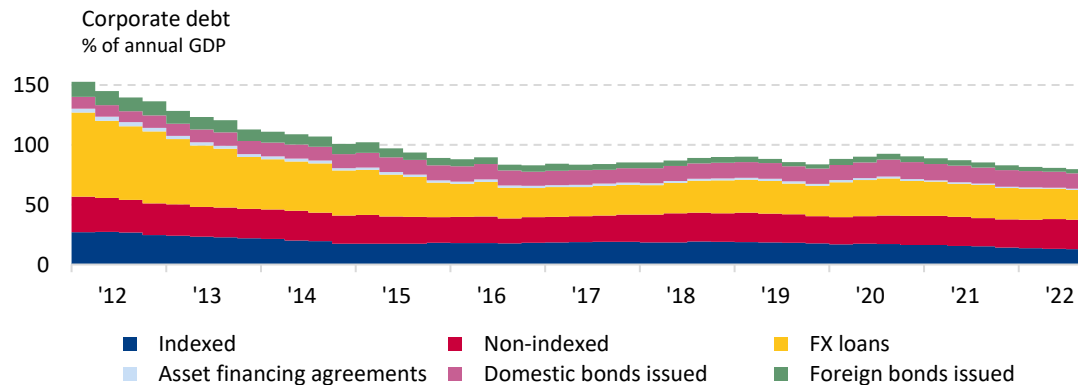


Source: Statistics Iceland, Central Bank of Iceland.

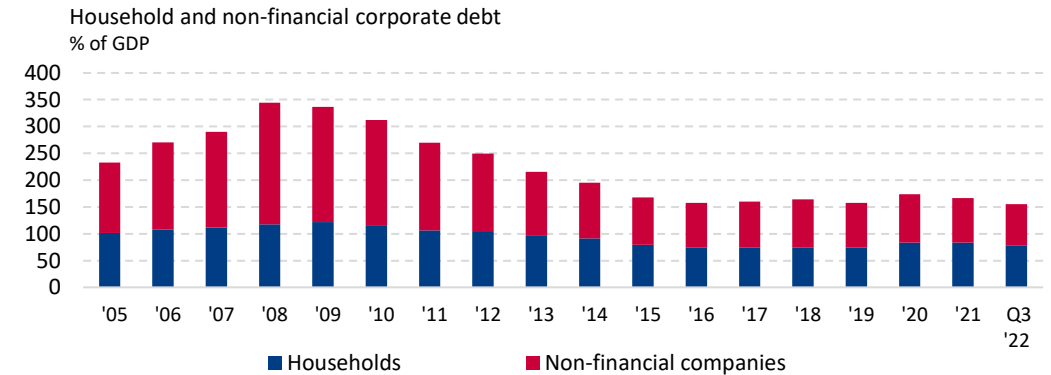


Private sector debt

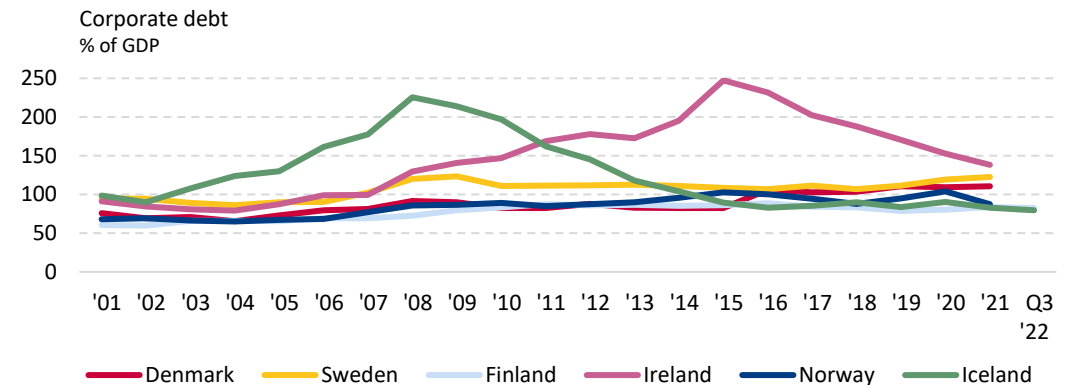
- Corporate debt has held steady as a share of GDP despite stronger credit growth during the year. In addition, the banks' corporate loan losses have been less than was projected early in the pandemic, and arrears have been limited.
- Credit system lending to businesses has grown since March/2022, after contracting uninterrupted since the beginning of 2021. Year-on-year growth measured 7.5% in Q3/2022 but was just over 8% after adjusting for the effects of exchange rate movements on foreign-denominated corporate loans. Lending to nearly all sectors has grown, although the increase is greatest in lending to companies in construction and services.
- Credit system lending was sluggish starting with the onset of the pandemic but then contracted in 2021. The corporate sector offset this by funding through bond issues and borrowing from institutional investment funds, although not all companies have access to these sources of financing. Financing from outside the credit system has been on the wane recently, while credit system lending has increased accordingly.



Source: Statistics Iceland, Central Bank of Iceland. Debt owed to foreign financial undertakings and market bonds issued. Quarterly data. GDP for Q4 2022 is according to the Central Bank of Iceland's forecast.



Source: Statistics Iceland, Central Bank of Iceland. Debt owed to financial undertakings and market bonds issued. GDP for Q4 2022 is according to the Central Bank of Iceland's forecast.



Source: Eurostat, Statistics Iceland, Central Bank of Iceland.



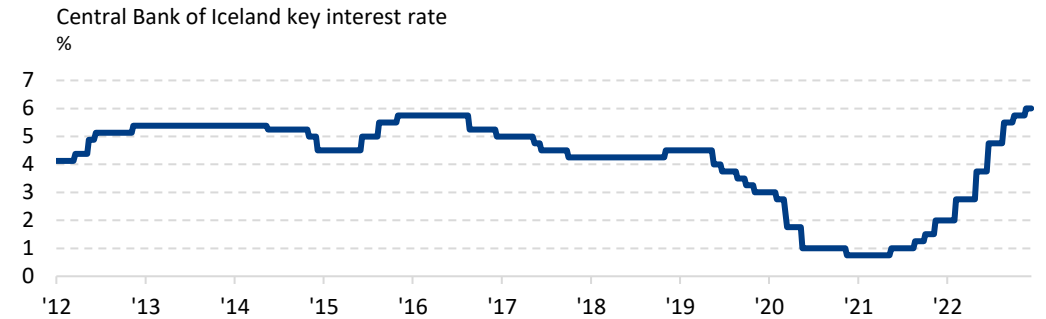
Financial sector

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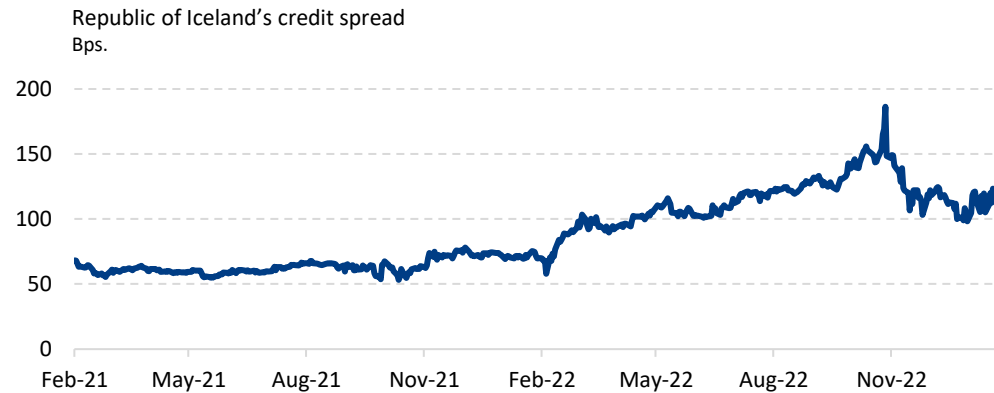


Financial conditions and FX reserves

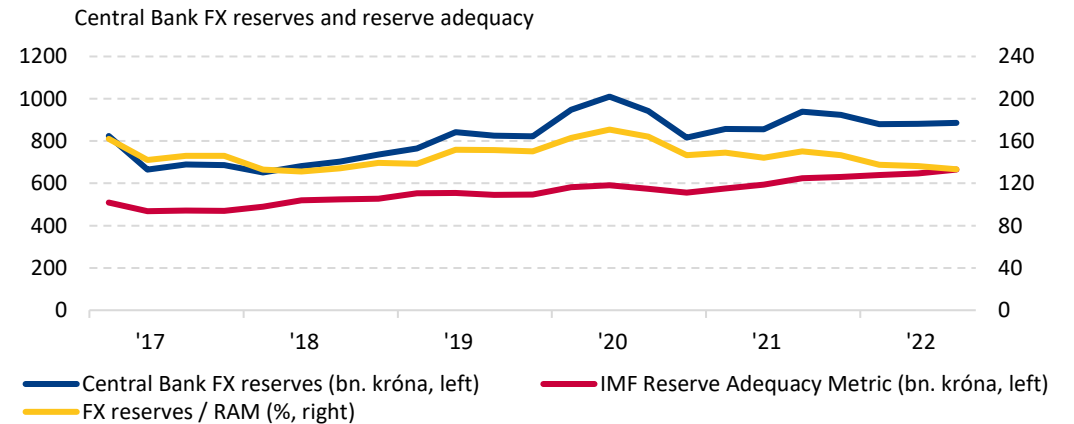
- At year-end 2022 the Central Bank’s key interest rate was 6,0%. It has been raised by 4.0 percentage points in 2022 and is 5 percentage points higher than it was two years ago, when it bottomed out after the onset of the COVID-19 pandemic. Short-term market rates have risen correspondingly.
- Credit spreads on the Republic of Iceland’s foreign issues rose sharply last year. They rose abruptly in March 2022, after Russia invaded Ukraine and continued to rise until early November 2022 when the spreads eased off to some degree
- The ratio of the Central Bank’s international reserves to the International Monetary Fund’s (IMF) reserve adequacy metric (RAM) was 133,3% at Q3/2022, or 17 percentage points lower than at Q3/2021. This ratio is relatively sensitive to exchange rate movements, but the recent decline is also attributable to the increase in foreign debt during the pandemic. Even though it has fallen, the international reserves are ample in terms of key reserve adequacy metrics.



Source: Central Bank of Iceland. Until April 2009, the Bank’s effective policy rate was the seven-day collateralised lending rate, and from April to September 2009 it was the current account rate. From September 2009 to May 2014, the effective policy rate was the average of the current account rate and the maximum rate on 28-day CDs. From May 2014, the effective rate is the Bank’s seven day term deposit rate.



Source: Bloomberg, Refinitiv Datastream.

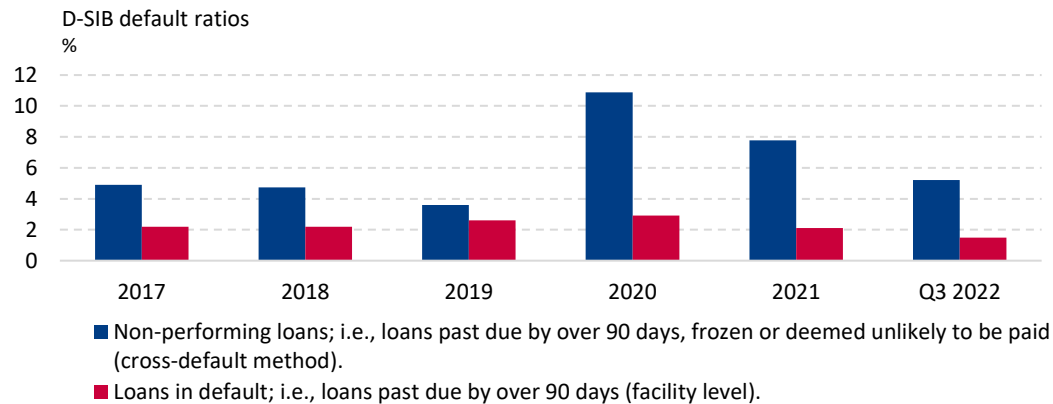


Source: Central Bank of Iceland.

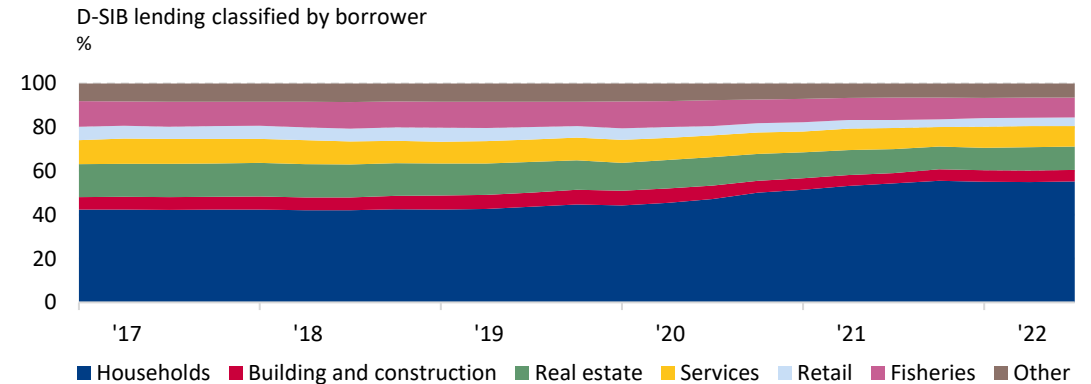


Banks (1/2)

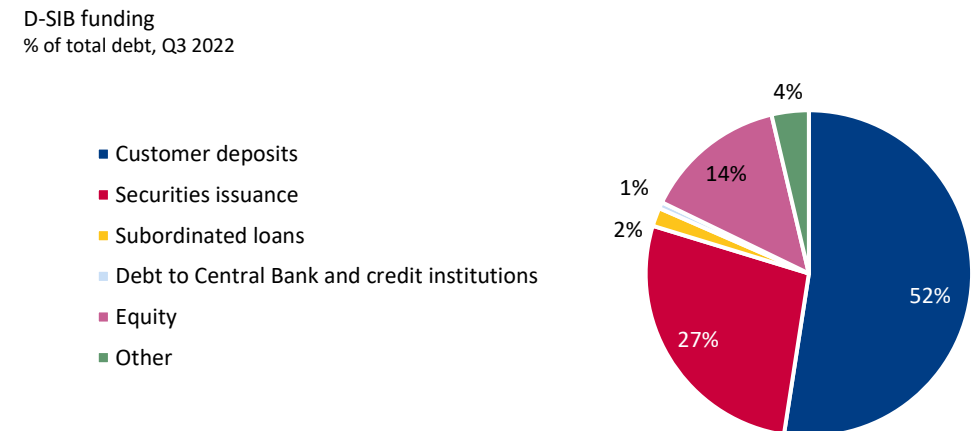
- The three largest commercial banks, classified as Domestic Systemically Important banks (D-SIBs), are well capitalized. According to the D-SIBs' Q3/2022 financial results, their combined capital ratio was 22.9% at the end of the quarter.
- At the end of June 2022, the total amount of loans to the tourism sector came to 9.1% of the D-SIBs' total lending to customers and 20.2% of their corporate lending.
- Issuance of covered bonds has been the main market funding instrument for the banks in ISK, and in the first nine months of 2022 the króna-denominated covered bond issue came to just over 51 bn. ISK.



Source: Central Bank of Iceland. Parent companies, book value. EBA definition for non-performing loans used from 2018 onwards (red).



Source: Central Bank of Iceland. Share of total lending to households and operating companies. Quarterly data.

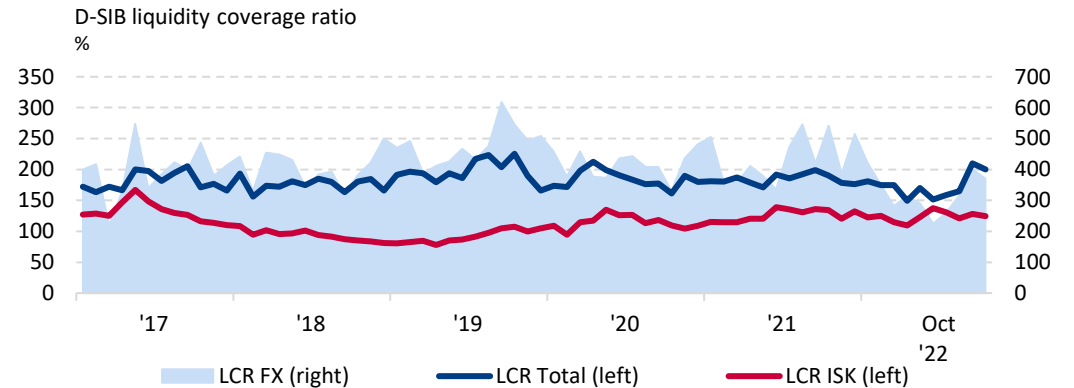


Source: Statistics Iceland, Central Bank of Iceland. Parent companies.

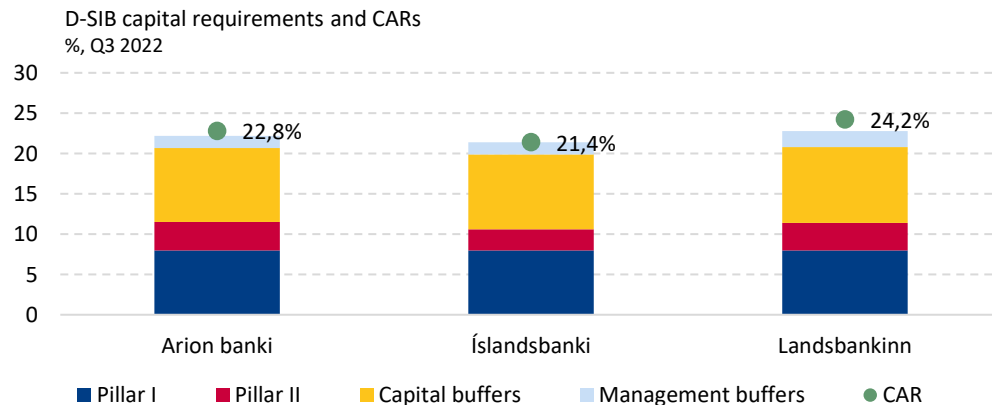


Banks (2/2)

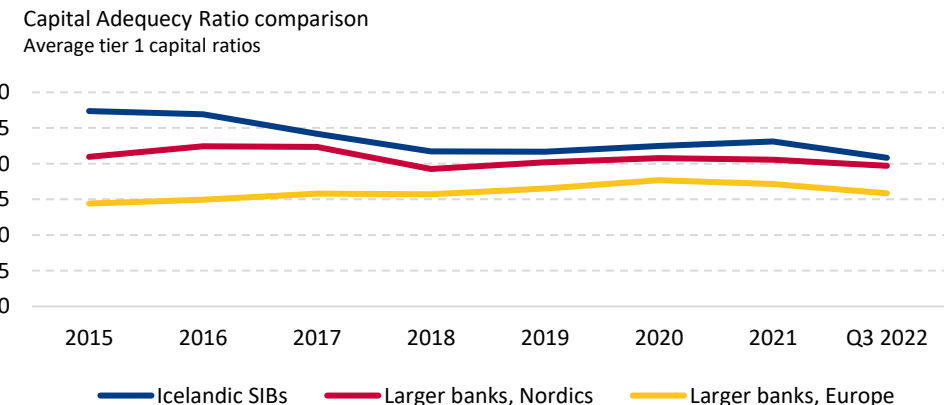
- The domestic important banks' (D-SIB) liquidity position has deteriorated in 2022 but remains well above the Central Bank minimum. The decline in liquidity ratios is due mainly to lending growth, bond maturities, dividend payments, and movements in deposits.
- At the end of August 2022, the D-SIBs' combined liquidity ratio in all currencies was 165%, far above the 100% minimum required under Central Bank rules. The ratio varies from bank to bank, however. The liquidity ratio in foreign currencies was 316% at the end of August 2022, whereas the ratio in Icelandic krónur was 121%.
- Among individual currencies, the highest ratios were in euros (337%) and US dollars (192%). Terms available to domestic and foreign banks in foreign credit markets have grown tighter, leading to higher credit spreads on the Icelandic banks' foreign bond issues. As a result, the banks have issued little foreign-denominated debt in recent months, and their liquidity ratios in foreign currencies have declined somewhat.



Source: Central Bank of Iceland. Consolidated figures. Monthly data.



Source: Central Bank of Iceland.

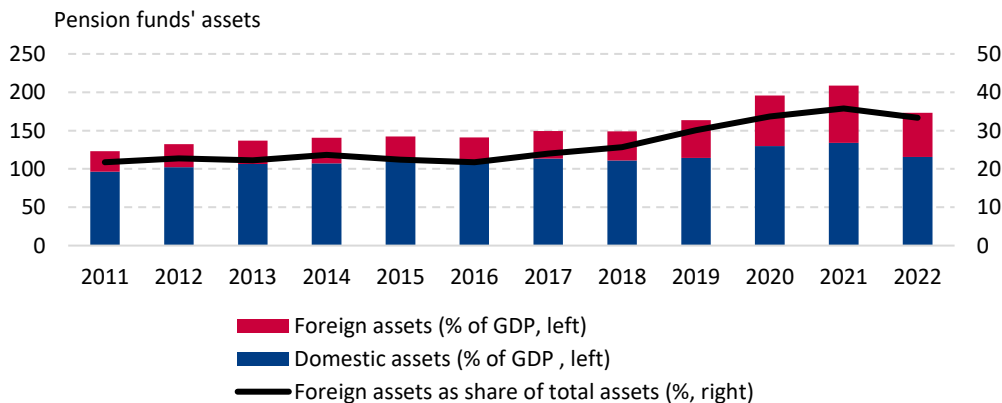


Source: Central Bank of Iceland.

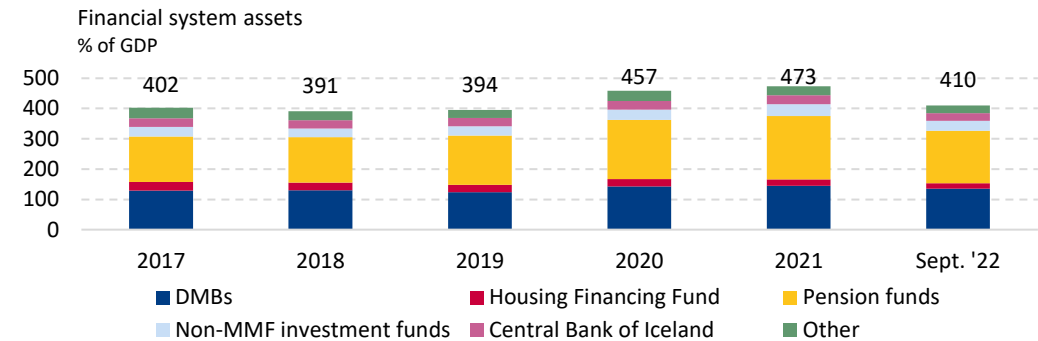


Financial system

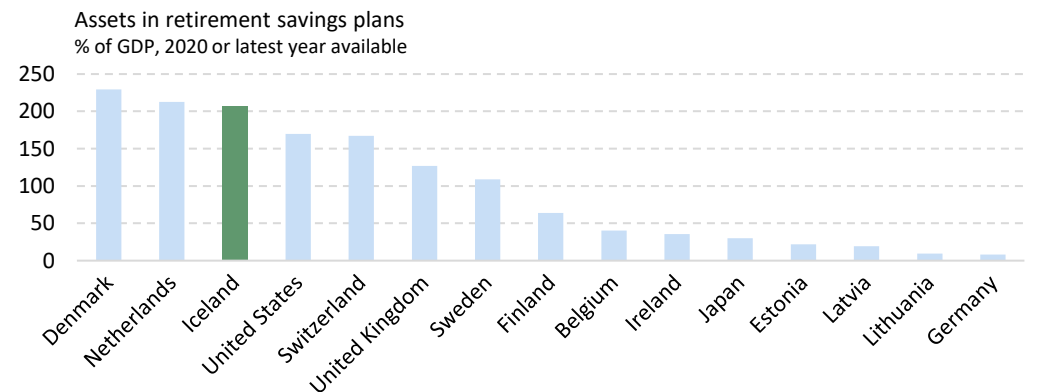
- The pension savings' total assets came to just under 6,700 bn. króna at the end of November 2022, or 180% of GDP.
- The funds are obliged to limit their exposure to exchange rate risk by ensuring that at least 50% of their total assets are denominated in the same currency as their liabilities.
- The share of foreign assets in pension funds' portfolios was 33% at the end of November 2022.



Source: Central Bank of Iceland. GDP for Q4 2022 is according to the Central Bank of Iceland's forecast.



Source: Statistics Iceland, Central Bank of Iceland. Parent companies. Other: Failed financial institutions that have undergone composition are included with other financial institutions as of the time their composition agreements were approved. The Central Bank of Iceland Holding Company ehf. (ESÍ) is also included with other financial institutions from its establishment in December 2009 until its dissolution in February 2019. The Housing Financing Fund (HFF) merged with the Iceland Construction Authority on 1 January 2020. HFF assets from 2020 onwards are the assets of the ÍL Fund, which took over the processing of the HFF's assets and liabilities at the beginning of 2020. Annual data. Data for the first three quarters of 2021. GDP for 2022 is based on the Central Banks' latest baseline forecast.



Source: OECD (2021), "Assets in retirement savings plans and public pension reserve funds", in Pensions at a Glance 2021: OECD and G20 Indicators, OECD Publishing, Paris."



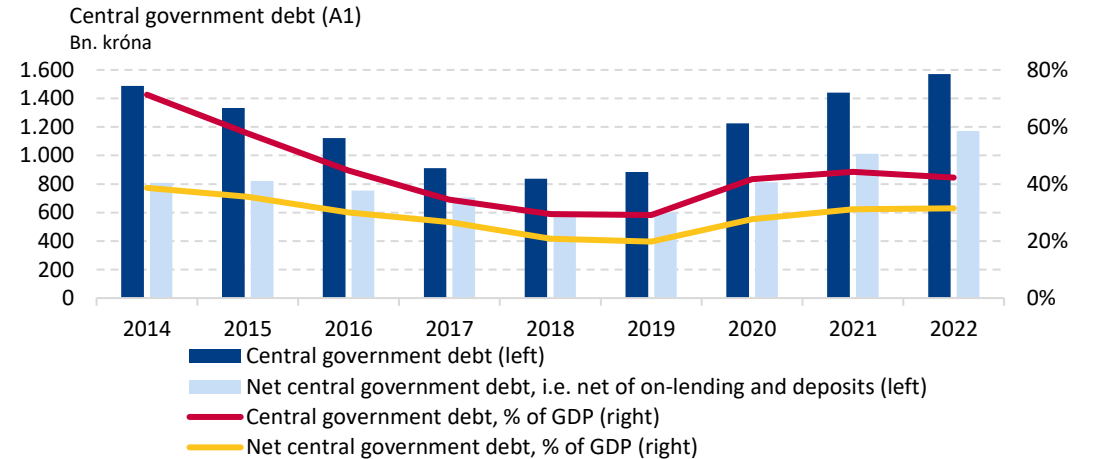
Government debt management

Republic of Iceland

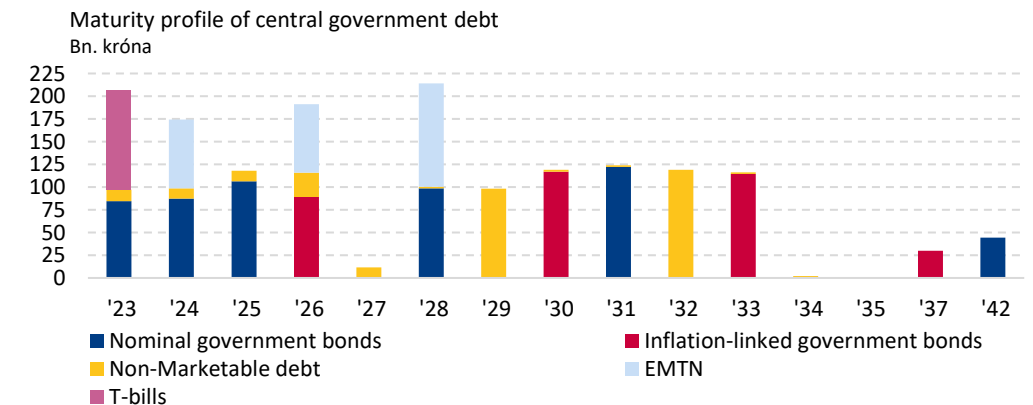


Debt profile (1/3)

- At the end of December 2022, the central government debt amounted to 1,570. bn. króna, including foreign debt (i.e. debt in foreign currency) of 315 bn. króna.
- At the end of December 2022, the Treasury’s current account balance with the Central Bank of Iceland was 83 bn. króna plus 228 bn. króna equivalent in foreign currencies. On-lending amounted to 88 bn. króna. Taking these factors into consideration the net central government debt amounted to 1,171 bn. króna.
- The central government debt was 42.3% of GDP at the end of 2022 and at the same time, net central government debt was 31.5% of GDP.
- No foreign bonds are scheduled to mature in 2023, but consideration is being given to a new foreign issue this year. It is also possible that a green bond will be issued, either domestically or through the Treasury’s EMTN programme, depending on market conditions.
- A domestic nominal government bond of 85 bn. króna will mature in 2023. A new nominal bond maturing in 2026 was issued in January 2023 and a 12-year nominal bond is scheduled as well. Other series will be expanded during the year. Planned government bond issuance for 2023 in the domestic market totals 140 bn. króna.
- The non-marketable debt consists primarily of loans from the ÍL fund (formerly The Housing Financing Fund). Approximately 16% of the non-marketable debt is denominated in foreign currencies.



Sources: Government Debt Management, Statistics Iceland, Central Bank of Iceland. A1 part excluding pension liabilities and accounts payable. GDP for 2022 is according to the latest forecast of the Central Bank of Iceland.



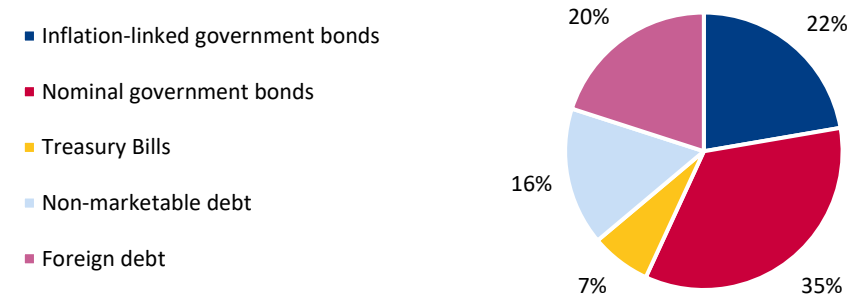
Source: Government Debt Management.



Debt profile (2/3)

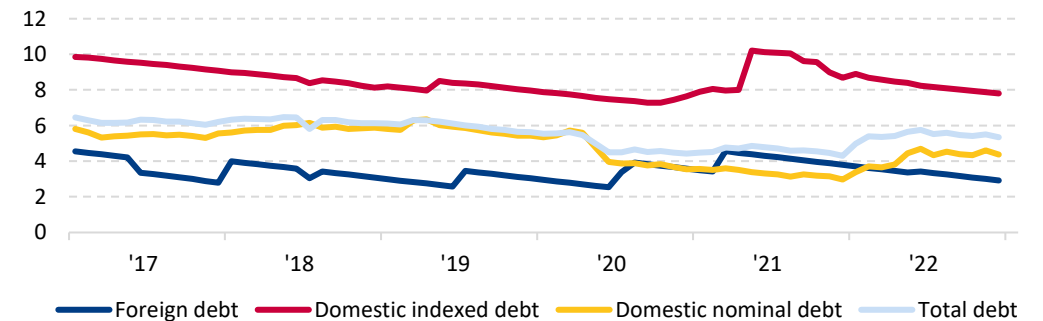
- The Medium-Term Debt Management Strategy lays down the government’s debt financing plans for the next five years.
- The strategy is based on the fiscal plan and sets forth targets and criteria for Treasury debt management over the specified period.
- The key objective of the strategy is to ensure that the government’s financing needs and payment obligations are met at the lowest possible cost over the medium- to long-term, in a way that is consistent with a prudent degree of risk, and to promote the maintenance and further development of efficient primary and secondary markets for domestic government securities.
- Debt management guidelines 2023-2027:
 - The structure of debt portfolio:
 - Non-indexed debt 50-70%
 - Indexed debt 20-30%
 - Foreign debt 15-25%
 - The average time to maturity of the debt portfolio must be at least five years and no longer than seven years.

Composition of central government debt



Source: Government Debt Management.

Average time to maturity of government debt including swaps



Source: Government Debt Management.

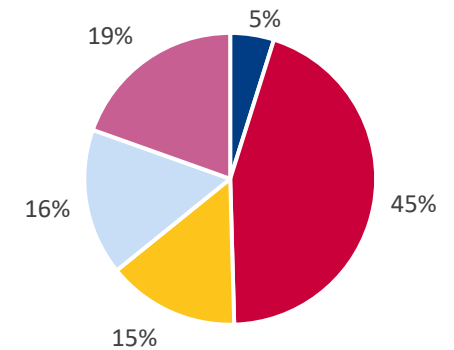


Debt profile (3/3)

- Pension funds' holdings accounted for 45% of the market value of outstanding domestic government bonds at the end of 2022. Foreign investors' holdings amounted to 5%, mostly in bonds with long maturity.
- Iceland is rated by Fitch Ratings, Moody's Investor Service and S&P Global Ratings. The last change in Iceland's ratings occurred in November 2019 when Moody's upgraded its ratings to A2.

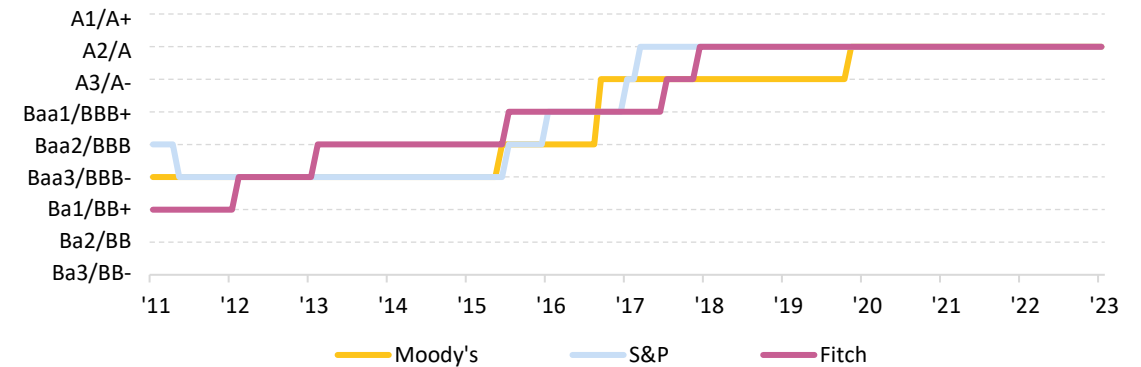
Owners of domestic government bonds

- Foreign investors
- Pension Funds
- Banks & Savings Banks
- Mutual and inv. funds
- Other



Source: Government Debt Management.

Iceland's credit rating history

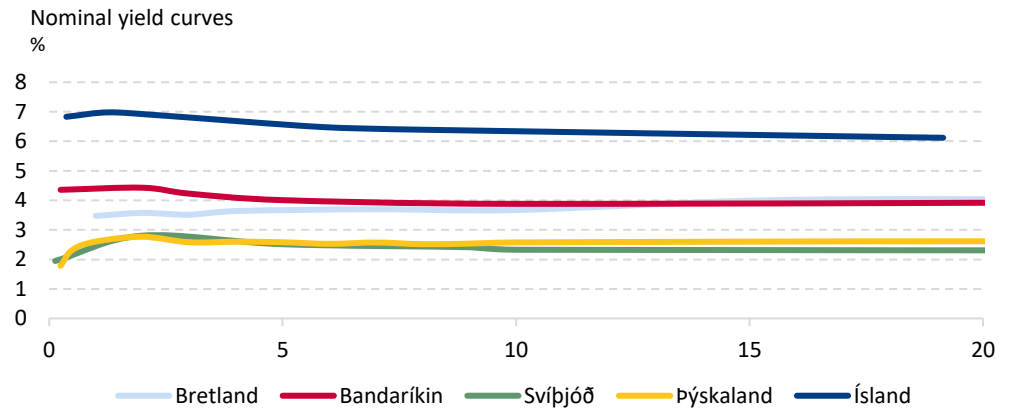


Source: Ministry of Finance and Economic Affairs.

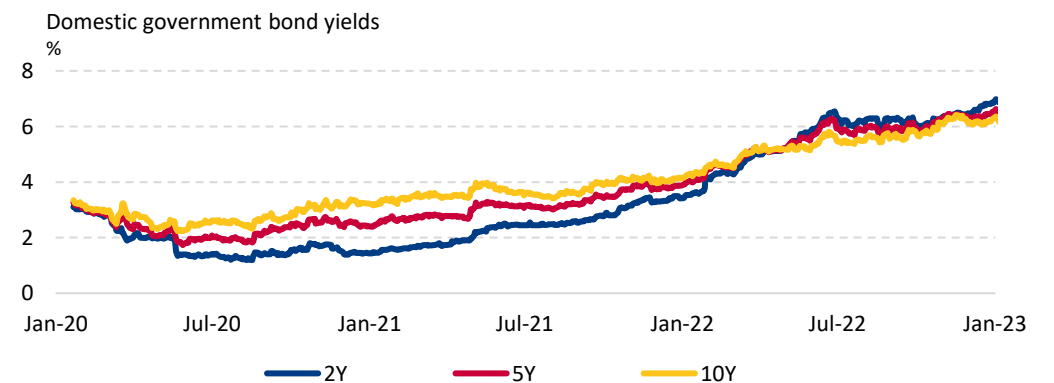


Domestic government bond market

- Government Debt Management (GDM) at the Central Bank of Iceland implements the debt strategy for the Ministry of Finance.
- GDM and the Treasury prepare and publish annual and quarterly issuance plans.
- Auction calendar published at the start of each year.
- Benchmark series are 11 in total.
- Government bond auctions via Bloomberg.
- Government bonds are traded on Nasdaq Iceland stock exchange and registered at Nasdaq CSD.
- Clearstream settlement is available.
- Currently 5 domestic primary dealers:
 - Have exclusive rights to participate in auctions.
 - Are market makers in the secondary market on the Nasdaq Iceland stock exchange:
 - Must submit bid and ask offers for each benchmark series
 - There is a maximum bid-ask spread
 - Required to renew offers within 10 minutes
 - Have access to Repo facilities.
 - Receive commissions from the GDM.
- GDM website: www.lanamal.is



Source: Government Debt Management.



Source: Government Debt Management. Zero-coupon yields for nominal bonds

Sustainable financing framework

- The Ministry of Finance and Economic Affairs issued a Sovereign Sustainable Financing Framework in September 2021.
- The Government has set clear objectives for sustainability and has taken on international commitments concerning climate action.
- SPO was provided by CICERO Shades of Green and green projects financed under the framework was awarded dark green.
- The score indicates that the projects to be financed support the long-term vision of a low-carbon future and climate resilient future.
- The framework enables the Government to finance its activities in a sustainable way, including by issuing green or other kind of labelled bonds, domestically and abroad.
- The sustainable financing framework is currently being revised and is scheduled for publication in 1Q of 2023.
- For more information:
www.government.is/news/article/2021/09/24/Iceland's-Sovereign-Sustainable-Financing-Framework/



September 2021

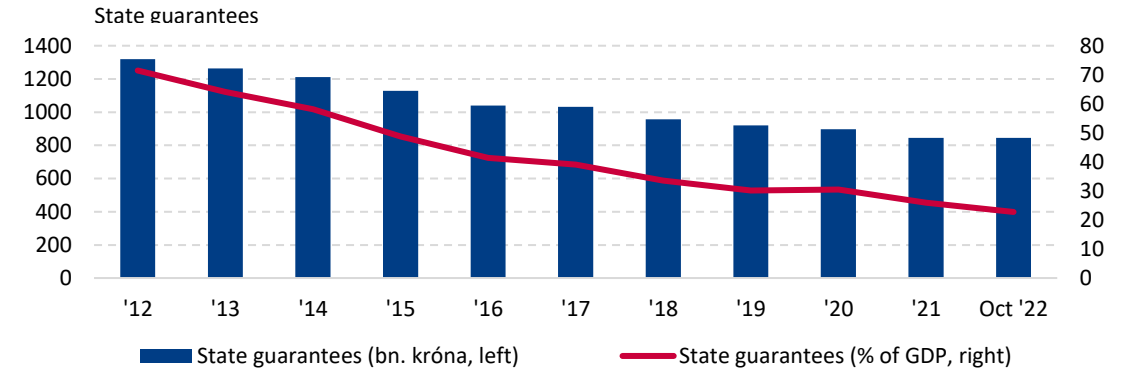
Iceland's Sovereign Sustainable Financing Framework

Government of Iceland
Ministry of Finance and Economic Affairs



State guarantees

- At the end of November 2022, state guarantees amounted to 848 bn. króna or 23% of GDP.
- Most state guarantees are denominated in Icelandic krona. The largest share of state guarantees covers the ÍL-fund or 87%.
- State guarantees are almost exclusively credit guarantees. Almost 90% of the State's credit guarantees are due to domestic marketable bonds.
- In the last 10 years state guarantees have decreased by 54,5% of GDP, from 77,3% of GDP in 2012 to 22,8% in 2022 (Nov.).

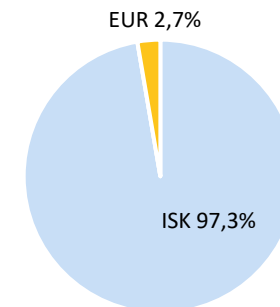


Source: Government Debt Management. 2021: GDP according to the Central Bank of Iceland's latest forecast.



Source: Government Debt Management.

Currency composition of state guarantees
End-November 2022



Source: Government Debt Management.

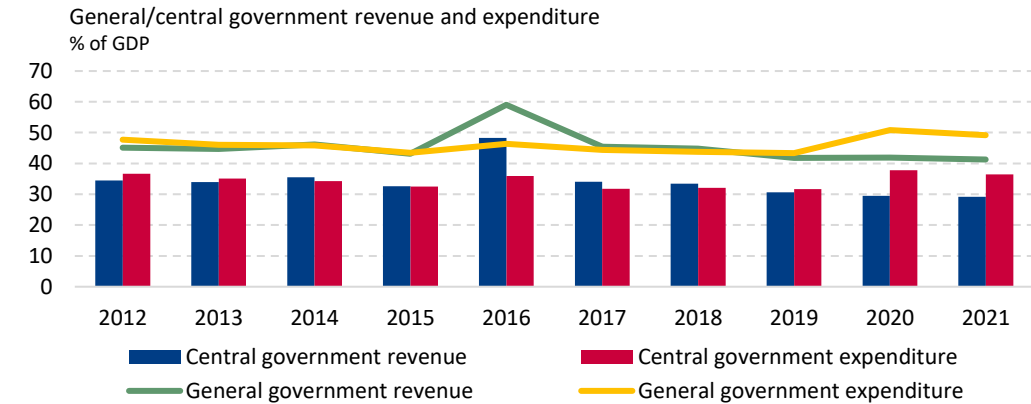


Fiscal discipline

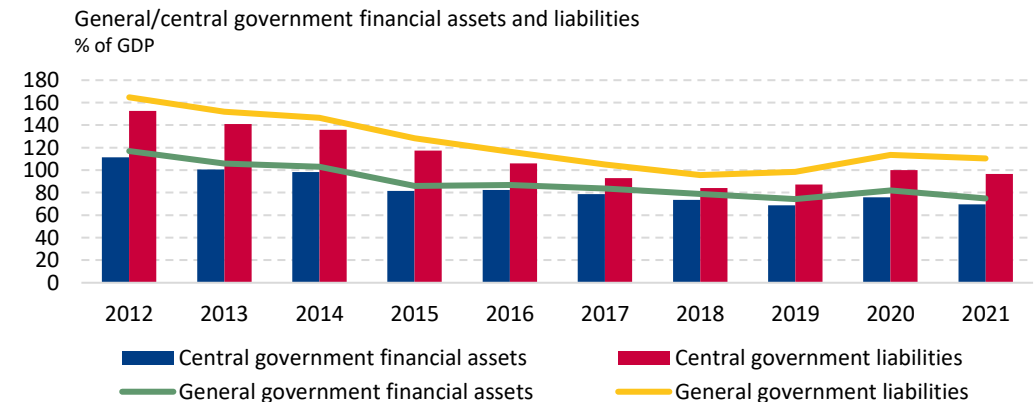
Republic of Iceland

Framework of public finances

- Public finance policy and planning is carried out according to the 2015 Public Finance Act. The Act stipulates that the government must publish its policy and planning while abiding to fiscal rules and principal values.
- Statutory Publications:
 - Fiscal Policy Statement for the next five years must be issued from the formation of a government. The statement should list the objectives of public finances and set budget and debt targets for the five years.
 - Fiscal Plan is submitted annually for the next five years (rolling spring plan). It entails further elaboration of the objectives of fiscal policy.
 - Annual Budget is also submitted annually and is consistent with the targets of the Fiscal Plan.
- Fiscal rules (have been suspended until 2026 due to COVID-19):
 - Overall balance rule for a 5-year horizon.
 - Max deficit 2.5% of GDP in any year.
 - Debt rule (debt net of liquid assets shall be lower than 30% of GDP).
 - Debt reduction rule (if debt net of liquid assets exceeds 30% of GDP, the part in excess thereof shall be reduced by at least 1/20 each year).
- Principal values:
 - Sustainability, prudence, stability, predictability, transparency.



Source: Statistics Iceland.



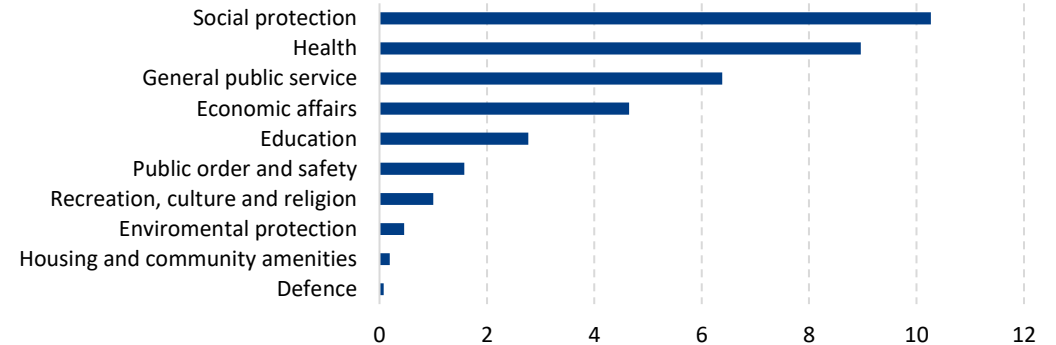
Source: Statistics Iceland. The increase in liabilities in 2019 can largely be attributed to the results of a fair value assessment of HF-fund carried out in that year. Information on the fair value of the fund's assets and liabilities prior to 2019 is not available.



Composition of expenditure and revenue

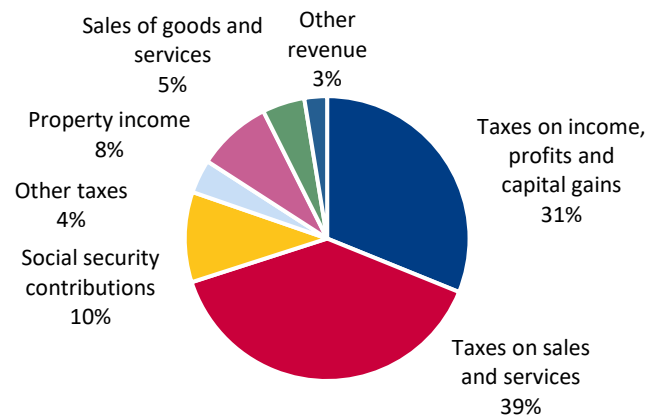
- The Central Government's revenues are comprised primarily of taxes and fees charged and collected based on various Acts. The largest sources of revenue are taxes on income, profits and capital gains and taxes on sales and services.
- The largest expenditure categories of the central government are social protection and health.

Central government expenditure by function, 2021
% of GDP



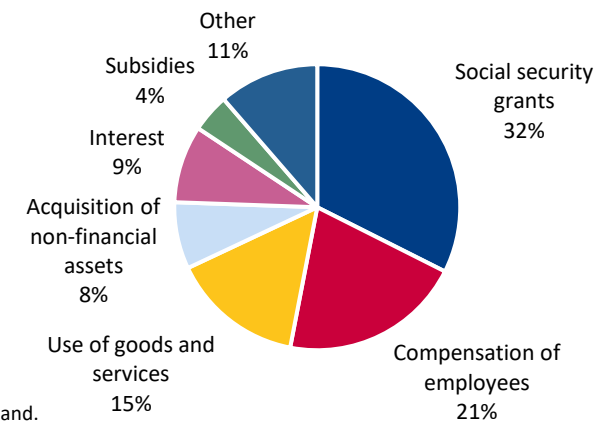
Source: Statistics Iceland.

Composition of central government revenue, 2021



Source: Statistics Iceland.

Economic composition of central government expenditure, 2021



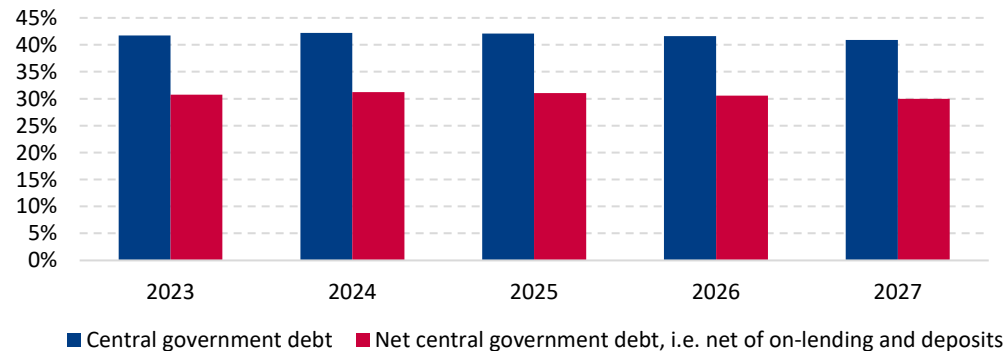
Source: Statistics Iceland.



Fiscal balance and targets

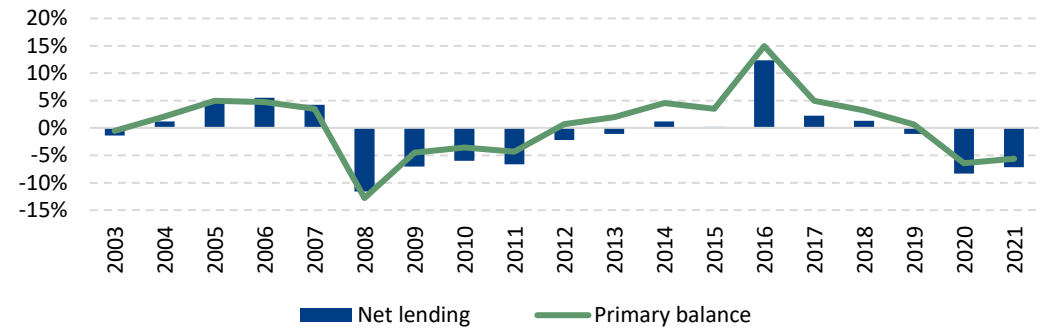
- The 2023 budget was approved by Parliament in December 2022. According to the approved budget, the central government deficit in 2023 is expected to amount to 120 bn. ISK (3% of GDP) and to decrease by around 20 bn. ISK from 2022.
- The budget is based on the 2022-2026 Fiscal Policy Statement, amended in 2021 to allow for increased deficits due to the COVID-19 pandemic, and the 2023-2027 Fiscal Strategy Plan.
- According to the fiscal plan for 2023-2027 the ratio of central government debt to GDP is projected to be approximately 41% by 2027. The fiscal plan for 2024-2028 will be presented in spring 2023.

Central government debt ratios according to the Fiscal plan 2023-2027
% of GDP



Source: Ministry of Finance and Economic Affairs, Fiscal plan 2023-2027. A1 part excluding pension liabilities and accounts payable.

Central government net lending and primary balance
National accounts definition, % of GDP



Source: Statistics Iceland. The central government debt assumption is included as an expense in 2008 (12,1% of GDP). In 2016, the central government's contribution to the A-part of the State Pension Fund is included as an expense (4,2% of GDP) and stability contribution is included as revenue (15,3% of GDP).



Republic of Iceland