

SEÐLABANKI ÍSLANDS

Icelandic Banking System



ECBC
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Ex-Deputy Governor Central Bank of Iceland

In a nutshell



Strengths

Challenges

Banks

Capital
Balance sheet
Profitability

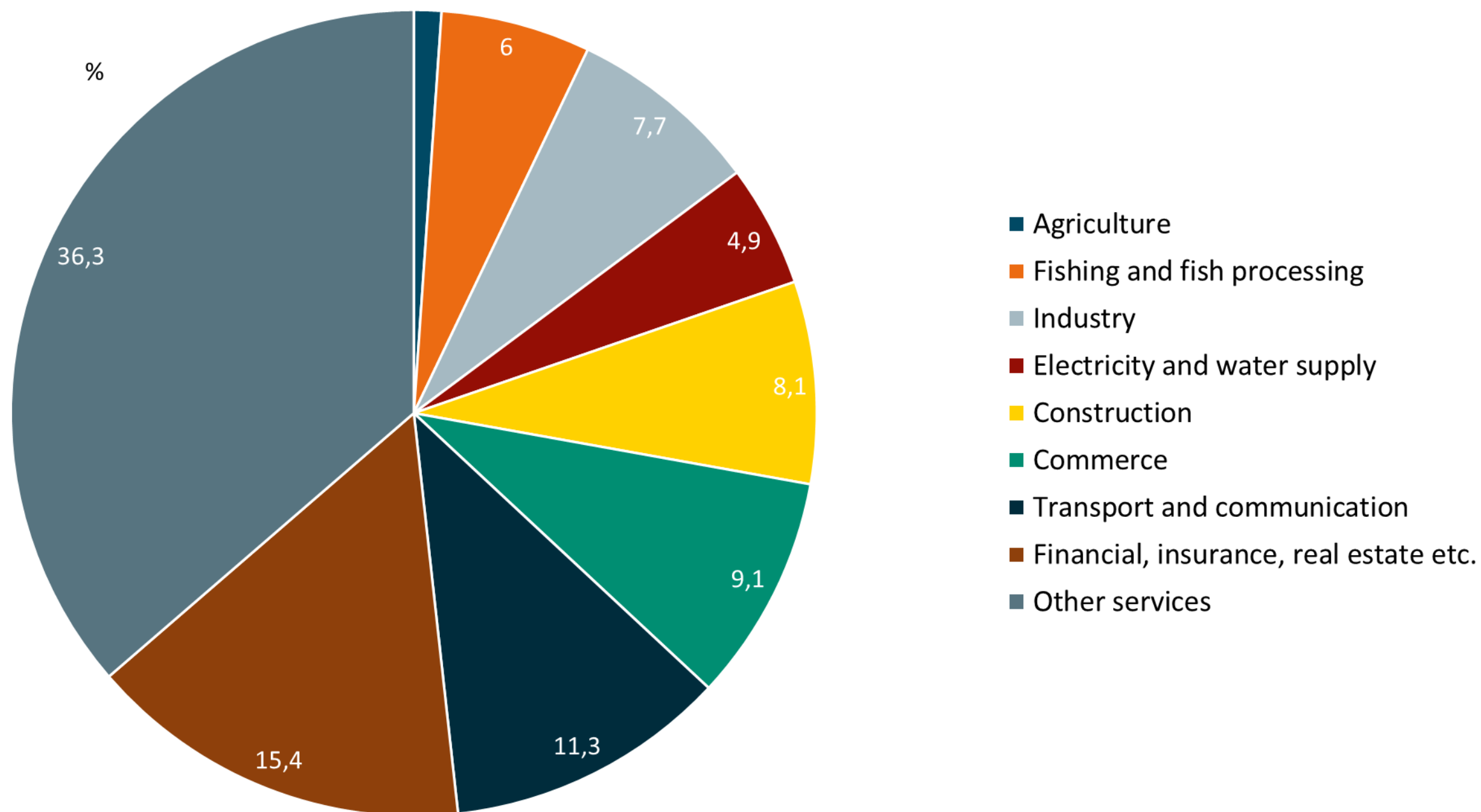
Market funding (FX)
Investor mix

Economy

Growth
NII position
FX reserves

Inflation
Tight labour market
Supply of housing

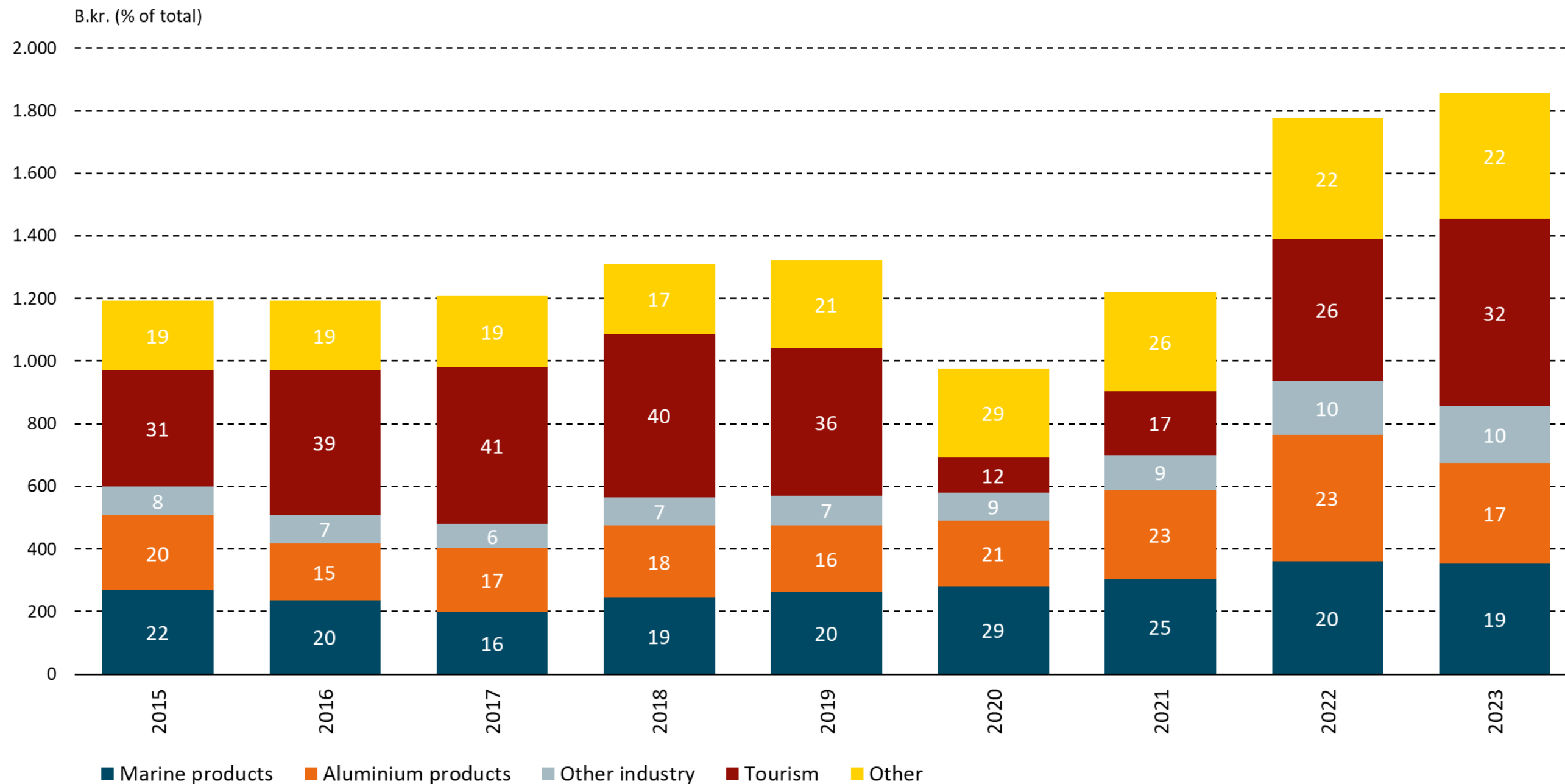
Increasingly diversified economy (GDP by sector)



GDP by sector in 2023.

Source: Statistics Iceland, Central Bank of Iceland.

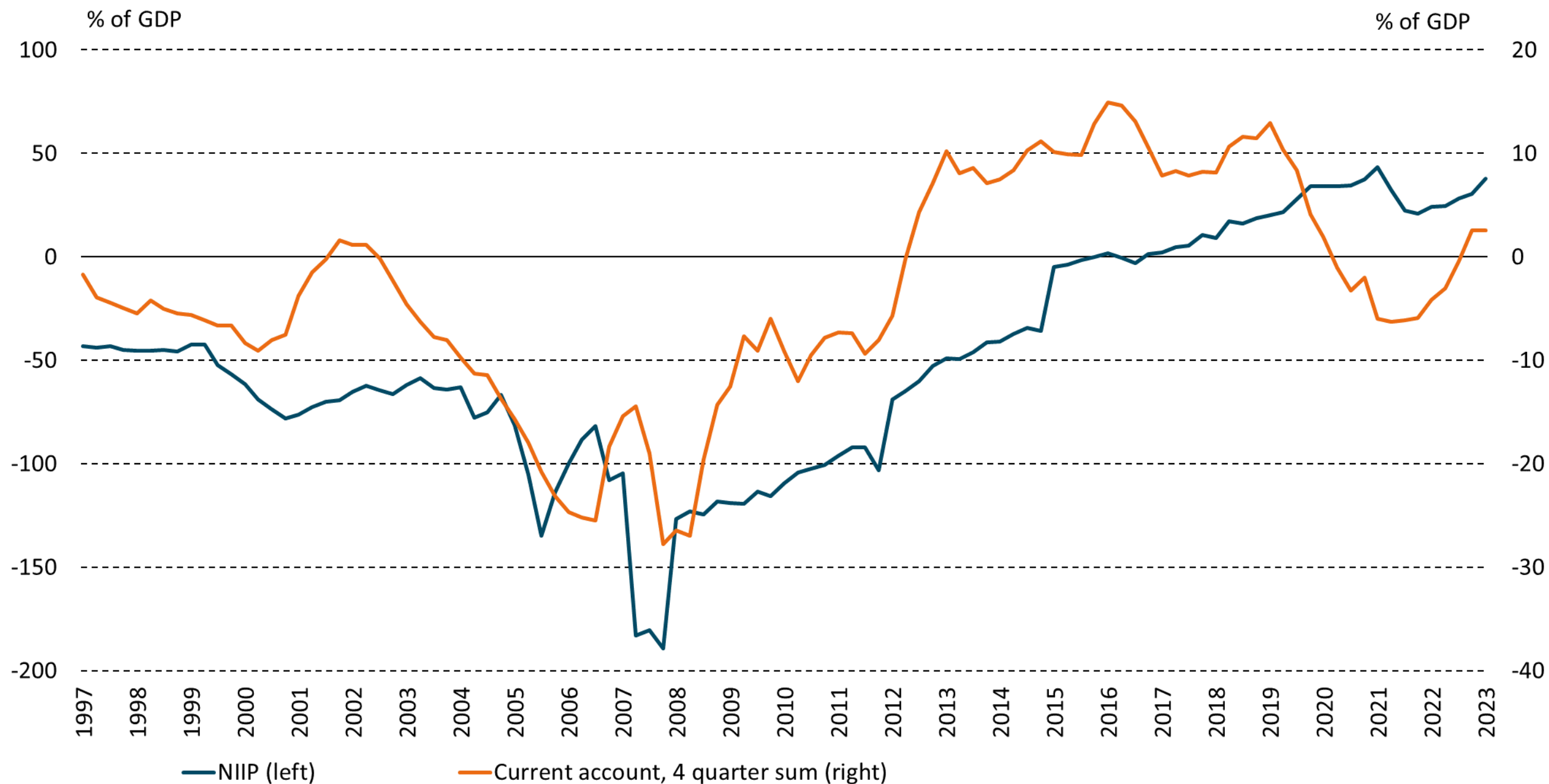
Well balanced mix in exports and a growing other bucket



Goods and services exports.

Sources: Statistics Iceland, Central Bank of Iceland

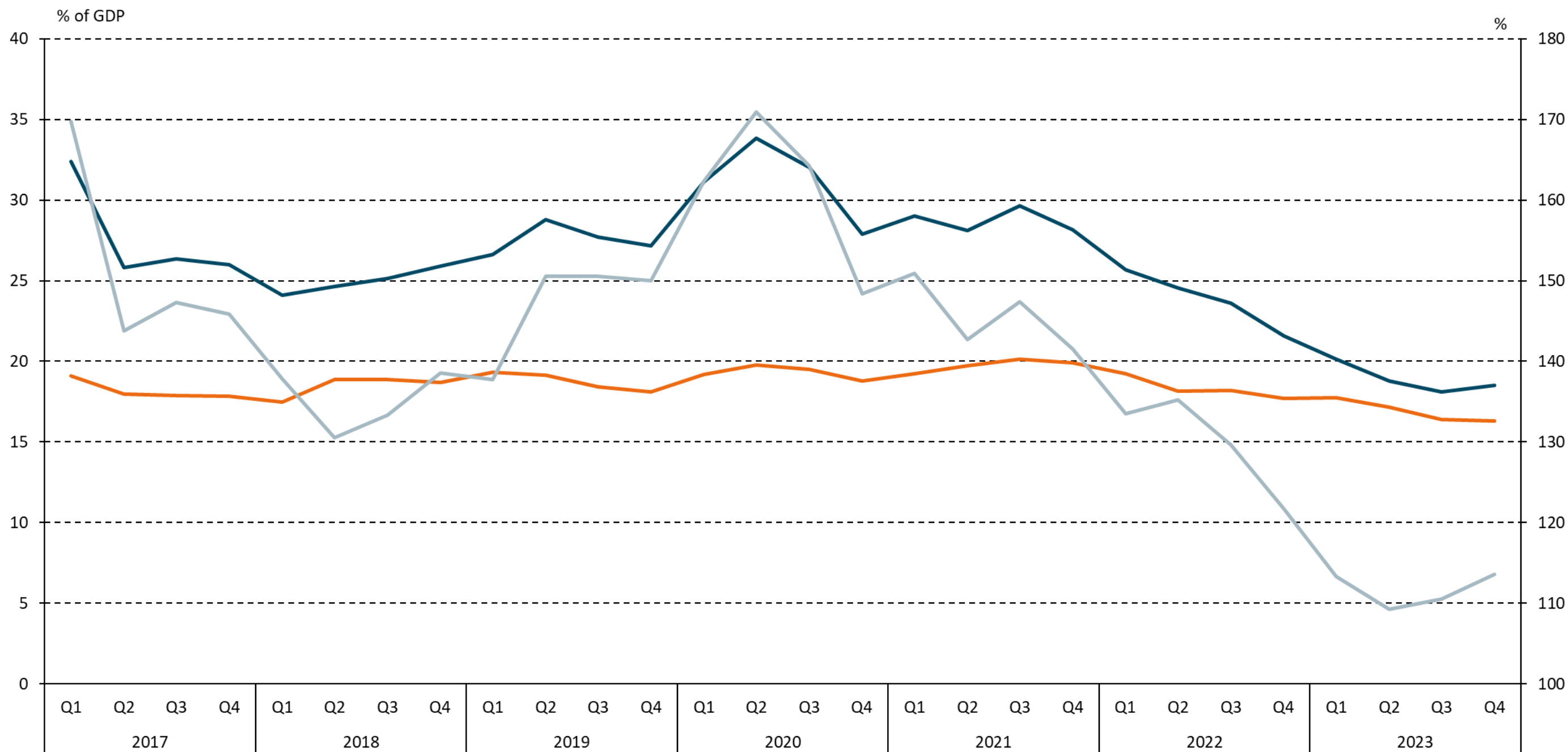
From net debtor to net creditor



Underlying NIIP 2008Q4-2015Q3 and underlying current account 2008Q4-2016Q4. Underlying position, i.e. adjusted for the effects of settling the failed banks' assets and assuming equal distribution of assets to general creditors.

Source: Central Bank of Iceland.

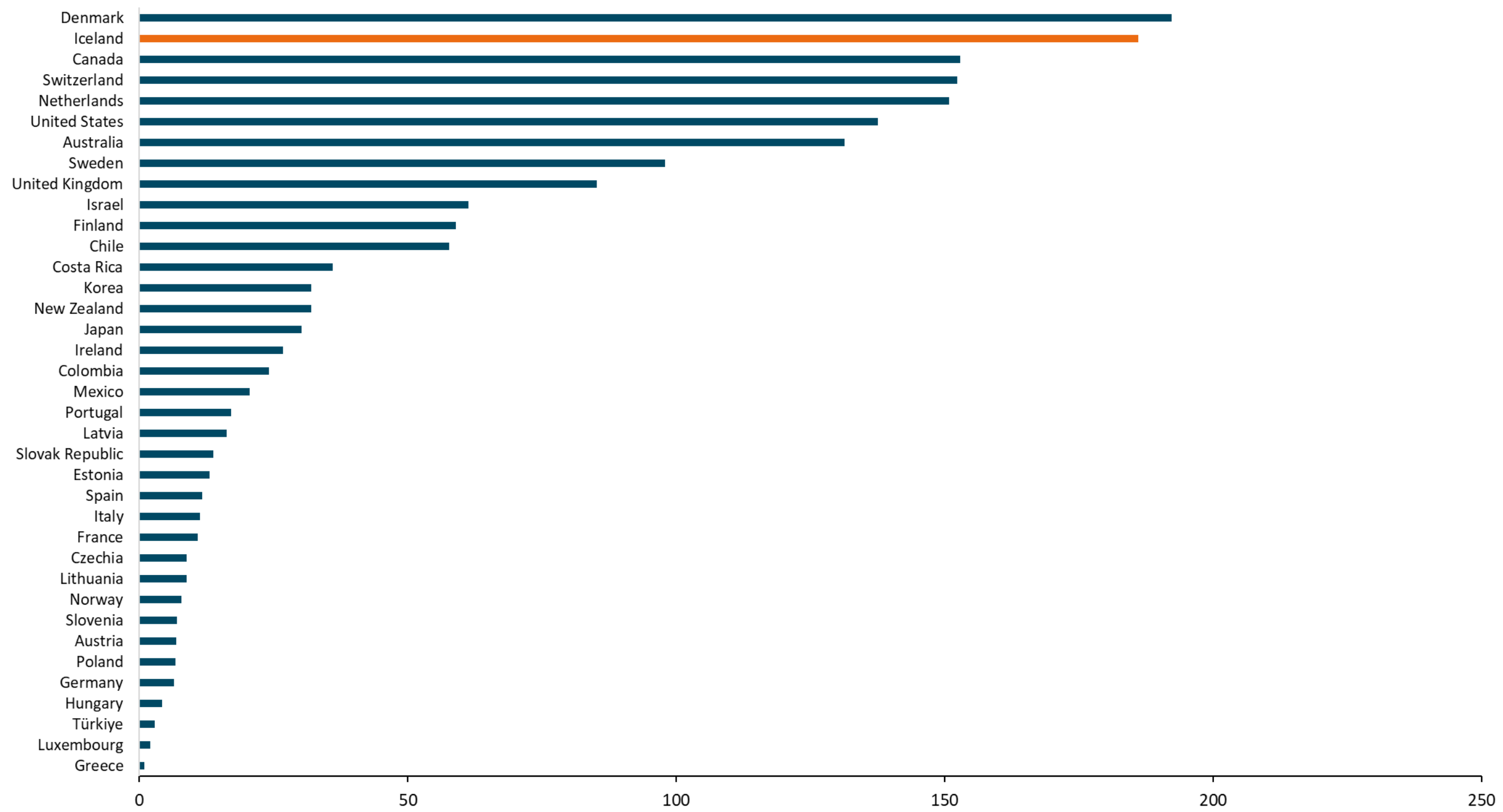
Strong foreign reserves position



— International reserves (left)
 — IMF reserve adequacy metric (left)
 — Reserves / IMF RAM (right)

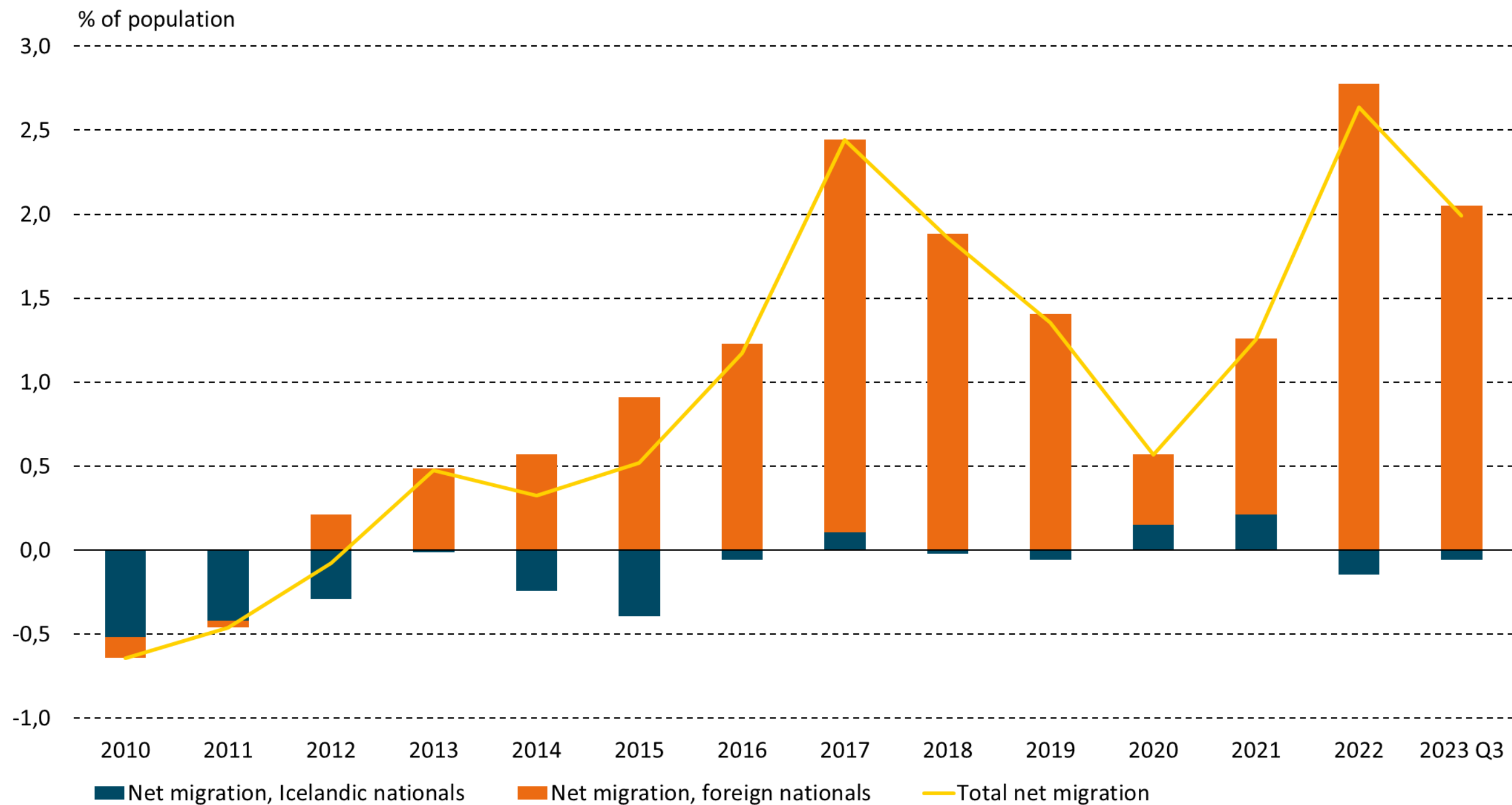
Source: Central Bank of Iceland.

Well funded pension system



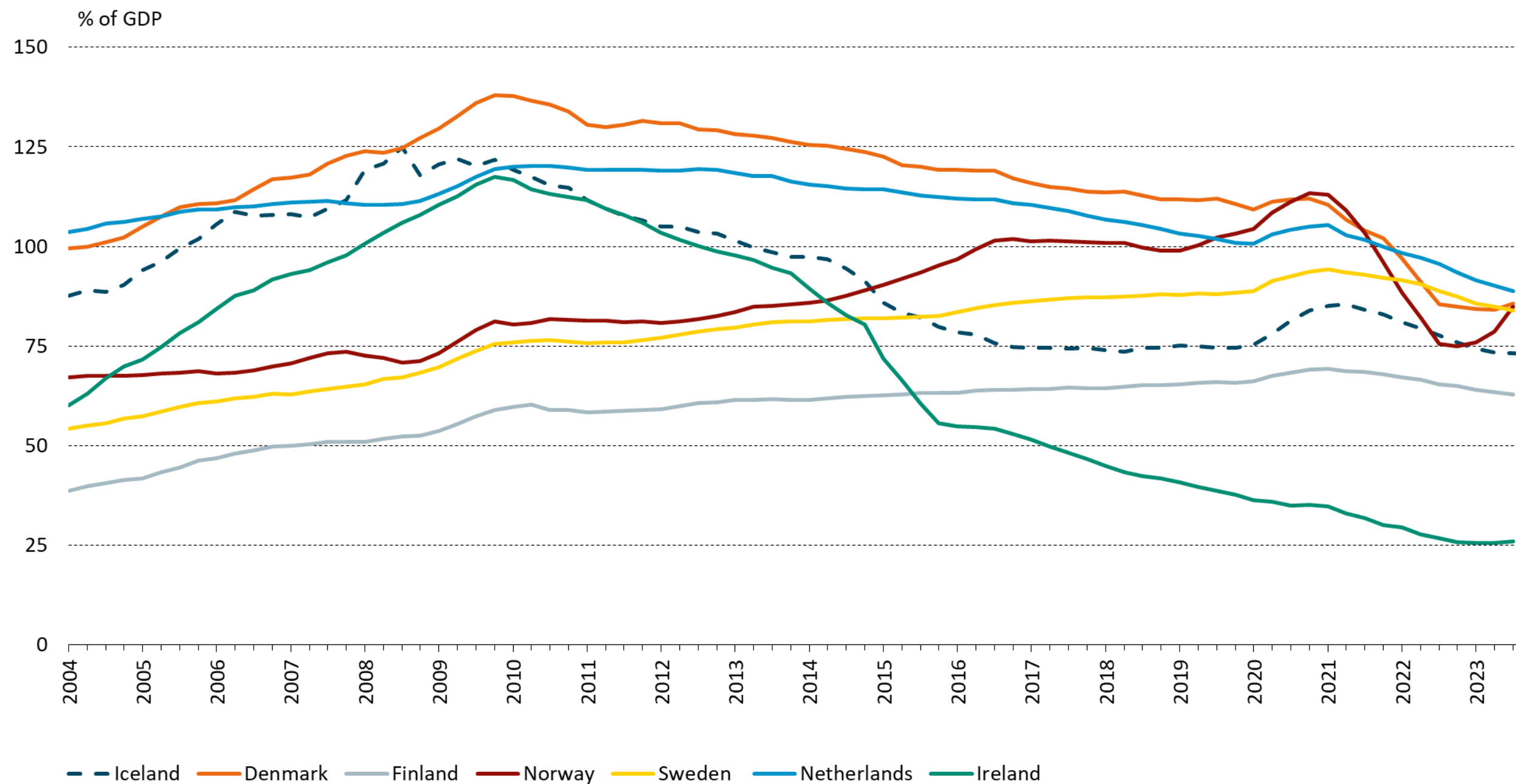
OECD countries. Total assets in funded and private pension plans, year-end 2022.
 Source: OECD Global Pension Statistics.

Flexible and growing labour market



Source: Statistics Iceland.

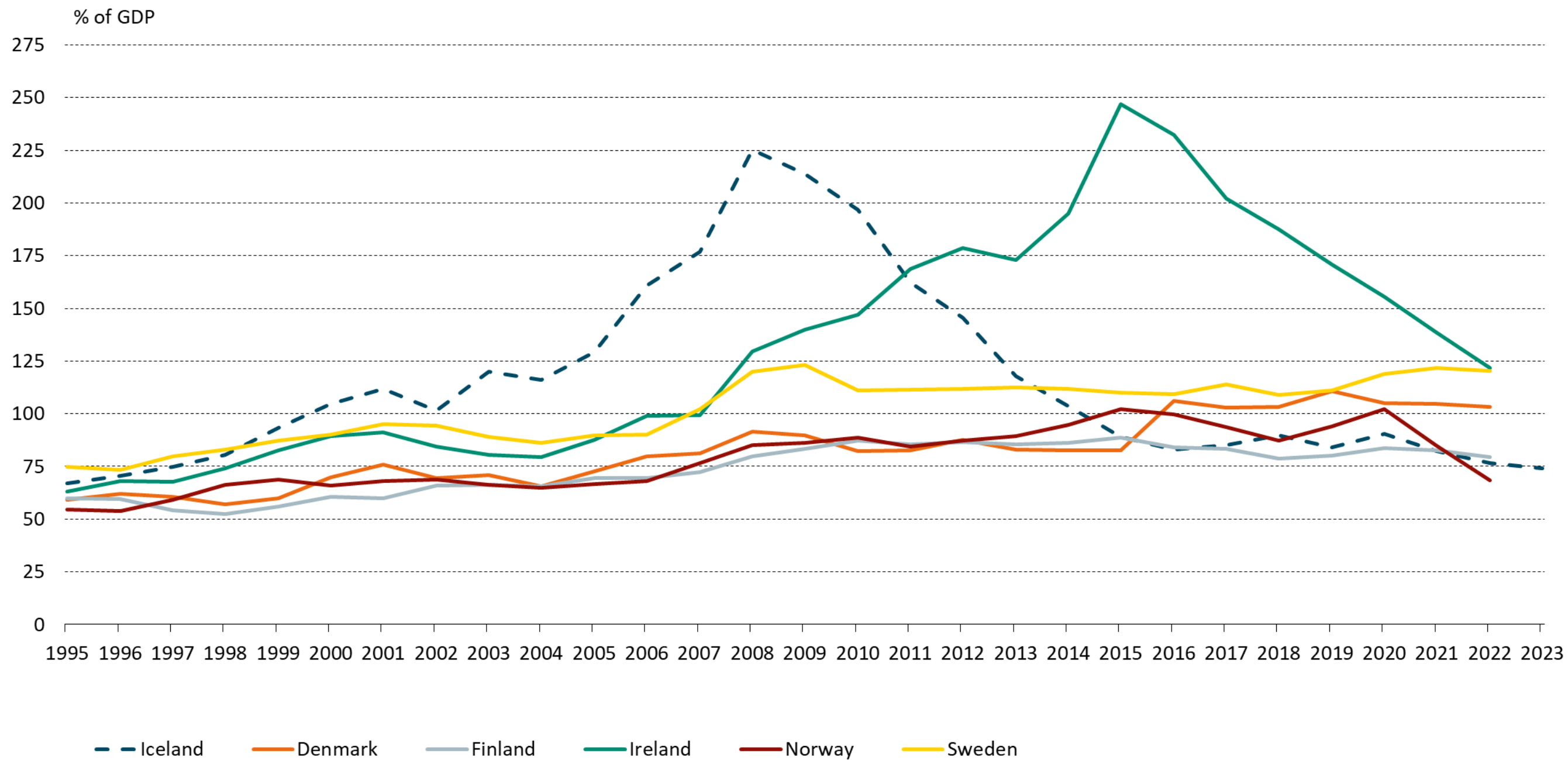
Low household debt levels ...



Household debt as a percentage of GDP.

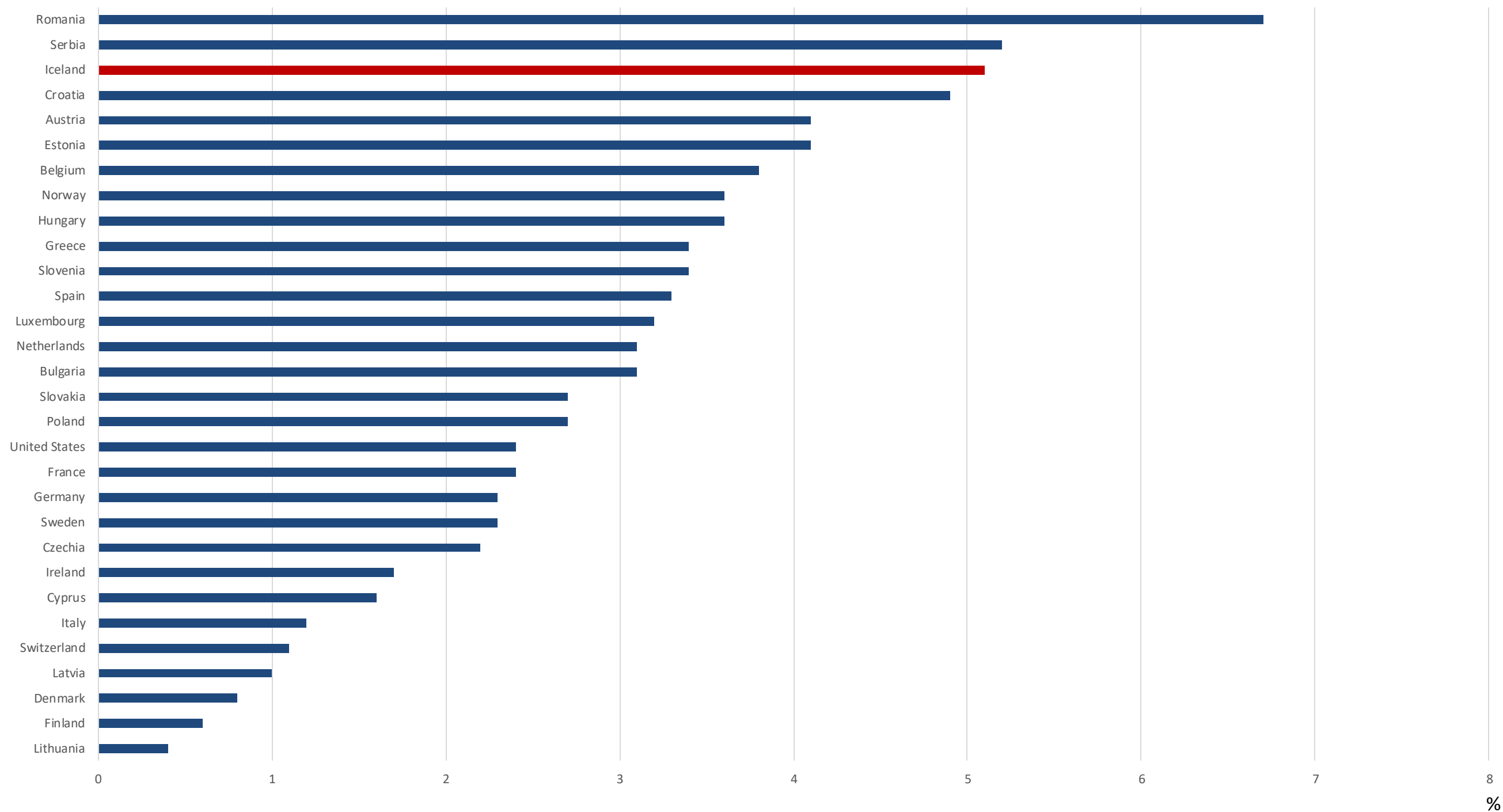
Sources: Macrobond, Statistics Iceland, Central Bank of Iceland.

...and low non-financial corporates debt levels



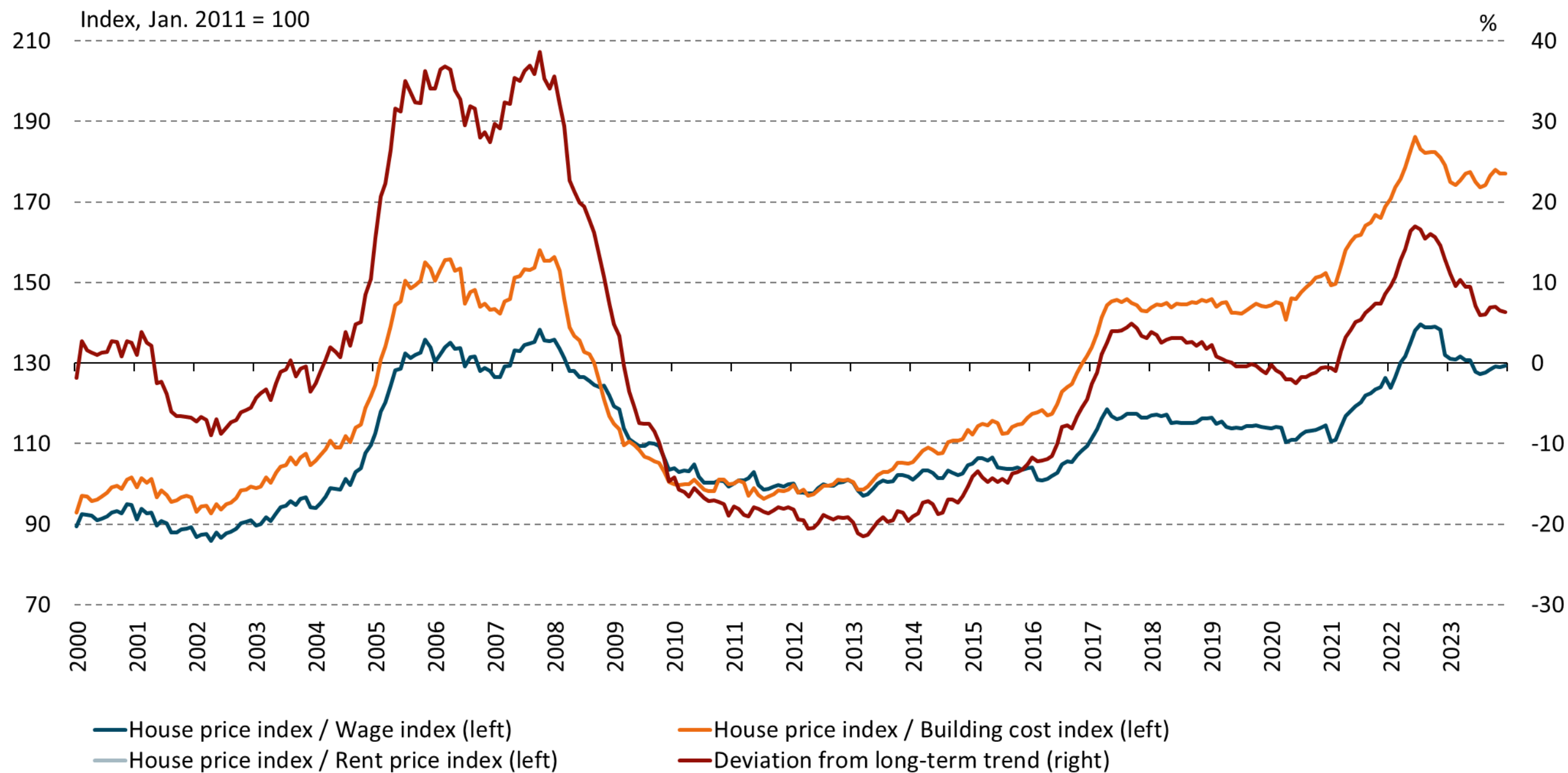
Non-financial corporate debt as a percentage of GDP.
Sources: Macrobond, Statistics Iceland, Central Bank of Iceland.

Near the top of the pack (HICP)



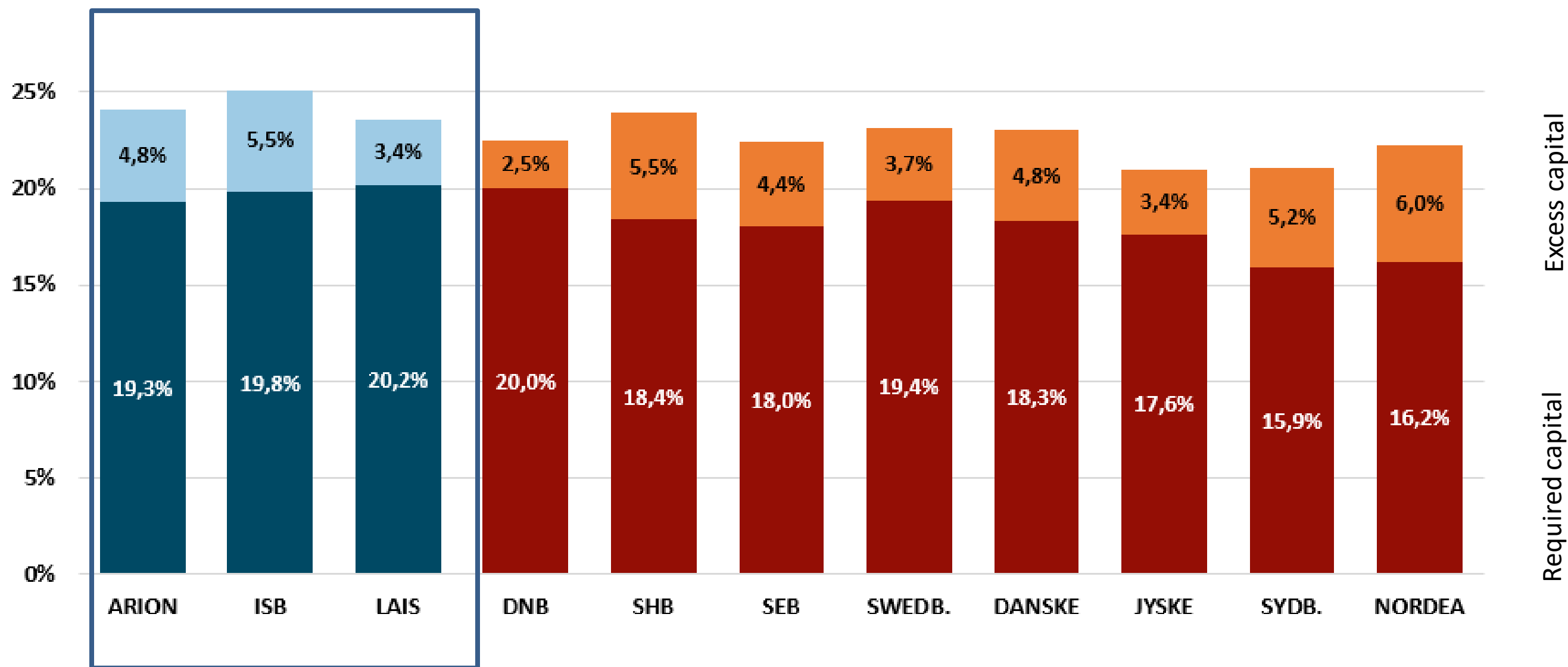
Year-on-year change in the HICP at end-of March 2024.
 Source: Eurostat.

House prices still high by most measures

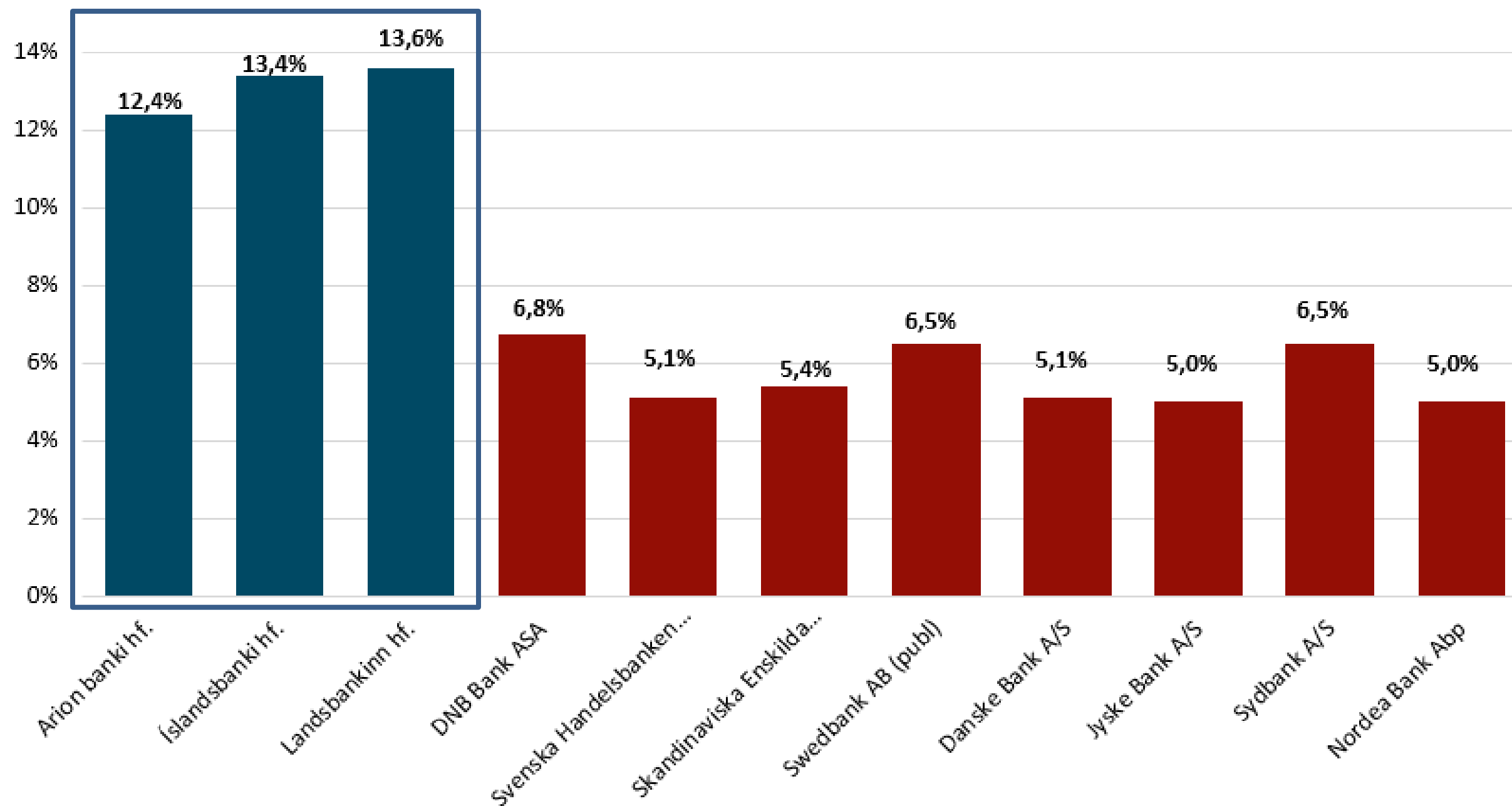


Long-term trend estimated using the capital area house price index, deflated with the CPI. Trend is determined using a Hodrick-Prescott filter with a multiplier of $\lambda=32,400,000$.
 Sources: Registers Iceland, Statistics Iceland, Central Bank of Iceland.

Capital ratios comparable across Nordic countries



Leverage ratio at Icelandic banks is higher



Source: Financial Disclosures – Q4 2023

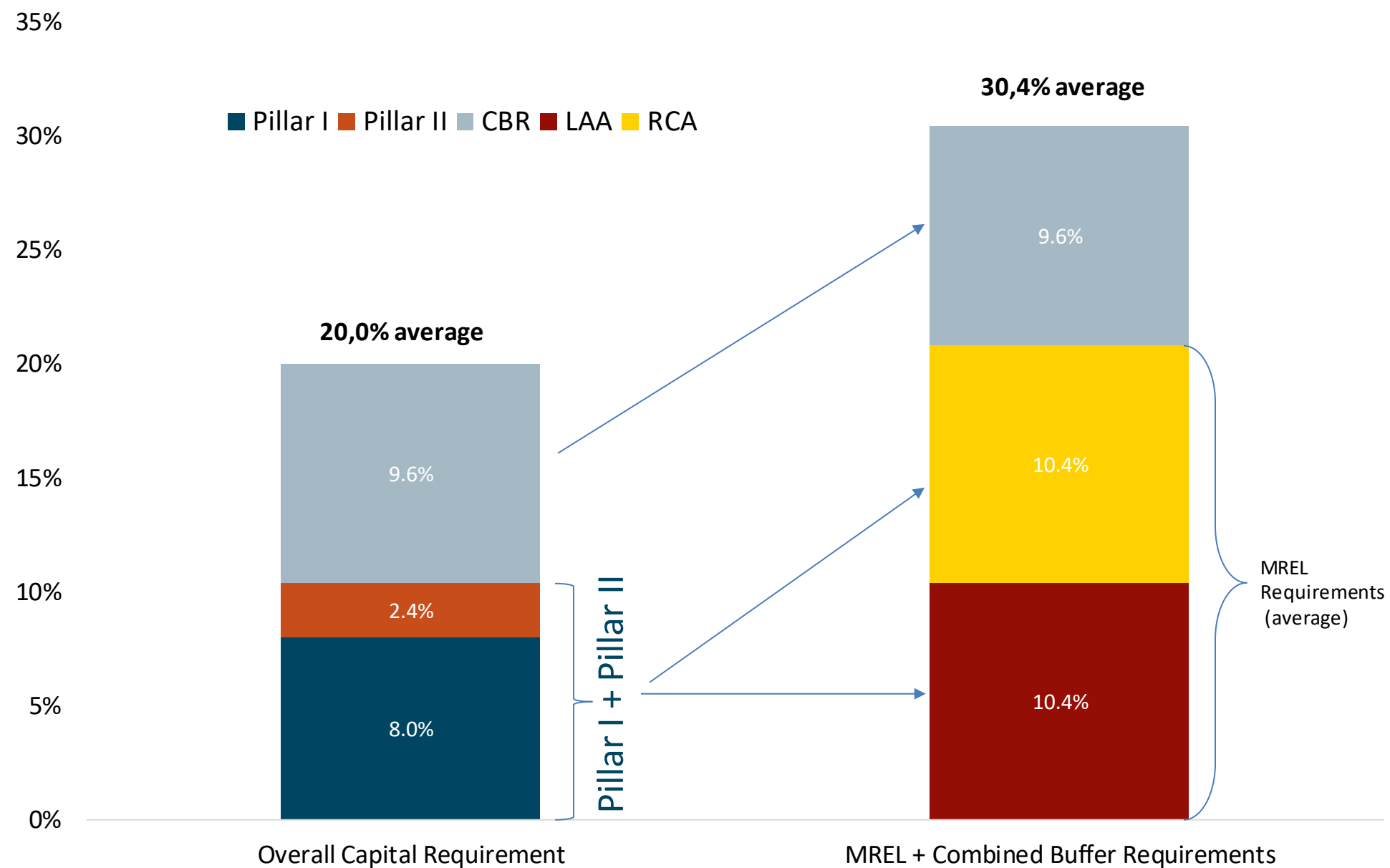
MREL requirement broadly similar across jurisdictions



		EU (BRRD)				Switzerland
		Iceland	Denmark	Sweden	Eurozone	
Instrument		SP/SNP	SP/SNP	SP/SNP	HoldCo Senior / SNP	HoldCo Senior
Subordination		Contractual	Contractual	Contractual	Structural / Contractual	Structural
Loss absorption		Equity Conversion or write-down	Equity Conversion or write-down	Equity Conversion or write-down	Equity Conversion or write-down	Equity Conversion or write-down
Requirements (as % of REAs)	LAA	Pillar 1 + Pillar 2R	Pillar I + Pillar 2R	Pillar 1 + Pillar 2R	Pillar 1 + Pillar 2R	Going concern G-SIBs: 5.0% LR / 14.3% RWAs
	RCA + MCC	Pillar 1 + Pillar 2R	Pillar 1 + Pillar 2R + CBR - CcyB	Pillar 1 + Pillar 2R + CBR - CcyB	Pillar 1 + Pillar 2R + CBR - CcyB	G-SIBs: 100% of going concern D-SIBs: 40%
Potential to adjust RWA base?		✓ for RCA	✓ for RCA & MCC	✓ for RCA	✓ for RCA & MCC	X
Subordination		BRRD II in effect in summer 2024	Partial subordination requirement	Partial subordination requirement	Partial subordination requirement	Full subordination

Source: UBS

Capital and MREL Requirements



Basic MREL formula: $MREL = 2 * (Pillar\ 1 + Pillar\ 2R)$

Combined Buffer Requirements on top (have to be met with CET1)

Icelandic Banks have excess capital and liabilities to meet MREL requirements (Q124)

