

Iceland

Key Rating Drivers

High Income, Strong Policy Buffers: Iceland's ratings are underpinned by very high income per capita and governance indicators. Big buffers mitigate vulnerability to external shocks, including ample foreign reserves and a reducing fiscal cash buffer. Strong fundamentals include sizeable pension fund assets, sound banks and strong private sector balance sheets. However, the rating is constrained by a small economy, limited export diversification and high public debt.

Economic Resilience: GDP growth is set to moderate in 2024 (to 1.9% versus 4.1% in 2023), but continue to outperform most European peers (Fitch's latest eurozone growth forecast is 0.7%). Tighter monetary policy has led to a more pronounced slowdown in domestic demand than previously anticipated. Eventual easing of monetary policy and an improved external trade environment should boost growth in 2H24. A potential risk to our GDP forecast is the ongoing seismic unrest in the Reykjanes peninsula.

Inflation Risks: The Central Bank of Iceland (CBI) has kept its key policy rate on hold at 9.25% since August 2023. The slowdown in domestic activity suggests the CBI's policy rate is likely to have peaked, although we do not expect the central bank to begin monetary easing until late 2Q24. Higher inflation expectations pose a risk, with the CBI not expecting alignment with its target until 2H26.

Declining Debt Ratio: Iceland's general government debt ratio has decreased significantly since peaking at 77.5% of GDP in 2020, driven by robust nominal GDP growth and the use of accumulated cash deposits to pay down impending maturities. We forecast that debt will reach 61.6% of GDP in 2023, still well above the current median debt ratio of 'A' peers, at 52.0% of GDP. We project a more moderate pace of debt decline for 2024-2027.

Fiscal Risks Balanced: Risks to our baseline for Iceland's public finances remain fairly balanced. In our projections, we have not accounted for proceeds that could materialise from the government's planned privatisation of Íslandsbanki. It is also uncertain what financing the Treasury will provide for the special purpose vehicle (SPV) set up to manage the home purchase programme for affected residents of Grindavík, through possible on-lending or capital equity.

Low Fiscal Deficits: The authorities remain committed to prioritising fiscal consolidation. The budget targets a central government fiscal deficit of 1.0% of GDP in 2024, compared with Fitch's projected deficit of 1.5%. Our forecast assumes lower real GDP growth of 1.9% against the budget forecast of 2.1%. We have also assumed increased expenses related to the uncertain seismic activity in the Reykjanes peninsula.

Strong External Finances: Iceland has a positive net international investment position (37.7% of GDP end 2023), partly a reflection of its large pension fund sector (assets 180% of GDP, end 2023). International reserves totalling 18.3% of GDP (end-2023) provide a big buffer against FX volatility risks.

Economic Diversification: Expanding the capacity of Iceland's limited export industries (tourism, aluminium and fisheries) and diversification of domestic sectors will help reduce the country's vulnerabilities to external shocks. There are already early signs of investment into higher-productivity and less cyclically sensitive sectors, such as biotechnology and ICT. Iceland is also well positioned to increase its global competitive advantage in fish farming.

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1+

Local Currency

Long-Term IDR	A
Short-Term IDR	F1+

Country Ceiling

	A+
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Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Rating Derivation

Component

Sovereign Rating Model (SRM)	A
Qualitative Overlay (QO)	0
Structural features	0
Macroeconomic	0
Public finances	0
External finances	0

Long-Term Foreign-Currency IDR	A
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Source: Fitch Ratings

Data

	2023E
GDP (USDbn)	31
Population (m)	0.4

E – Estimate. Source: Fitch Ratings

Applicable Criteria

[Sovereign Rating Criteria \(April 2023\)](#)

[Country Ceiling Criteria \(July 2023\)](#)

Related Research

[Fitch Affirms Iceland at 'A'; Outlook Stable \(March 2024\)](#)

[Global Economic Outlook - December 2023](#)

[Interactive Sovereign Rating Model](#)

[Fitch Fiscal Index - Analytical Tool](#)

[Click here for more Fitch content on Iceland](#)

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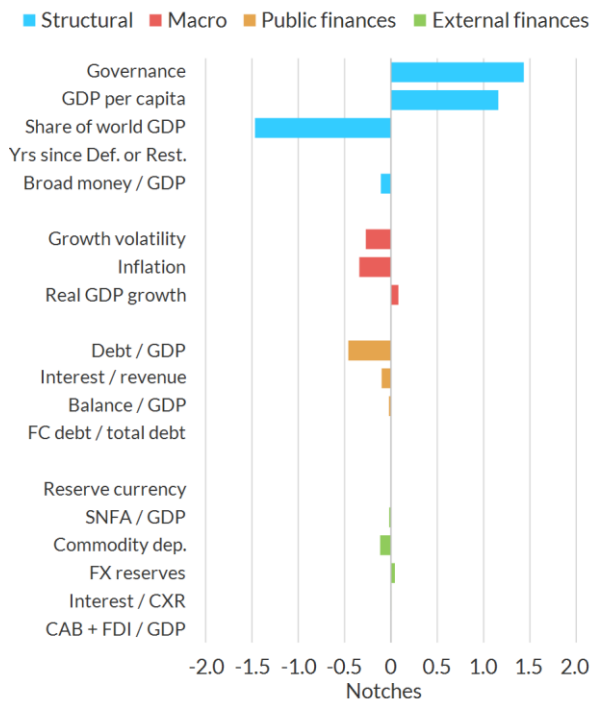
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Rating Summary

Long-Term Foreign-Currency Issuer Default Rating: A

Sovereign Rating Model: A

Contribution of variables, relative to A Median



Qualitative Overlay: 0

Adjustments relative to SRM data and output

Structural features: No adjustment.

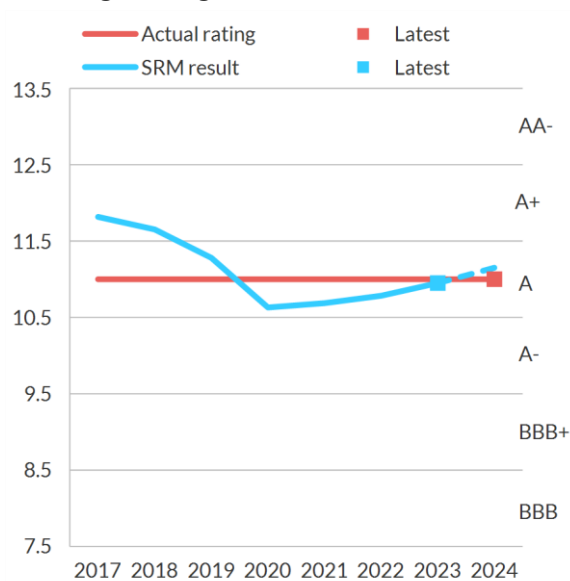
Macroeconomic outlook, policies and prospects: No adjustment.

Public finances: No adjustment.

External finances: No adjustment.

Note: See *Peer Analysis table* for summary data, including rating category medians; see the *Full Rating Derivation table* for detailed SRM data.
Source: Fitch Ratings

Sovereign Rating Model Trend



Recent Rating Derivation History

Review Date	LT FC IDR	SRM Result ^{ab}	QO S	M	PF	EF
Latest	A	A	0	0	0	0
1 September 2023	A	A	0	0	0	0
10 March 2023	A	A	0	0	0	0
16 September 2022	A	A	0	0	0	0
18 March 2022	A	A	0	0	0	0
24 September 2021	A	A	0	0	0	0
26 March 2021	A	A	0	0	0	0
23 October 2020	A	A	0	0	0	0
22 May 2020	A	A	0	0	0	0
22 November 2019	A	A+	0	0	0	-1

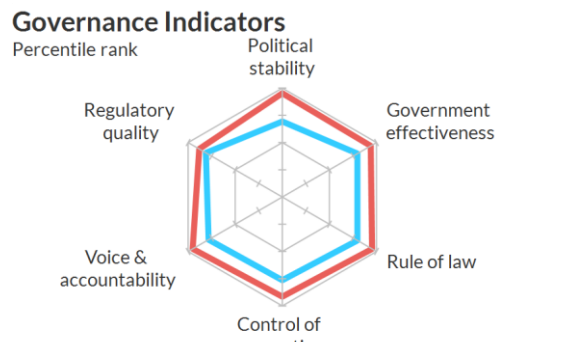
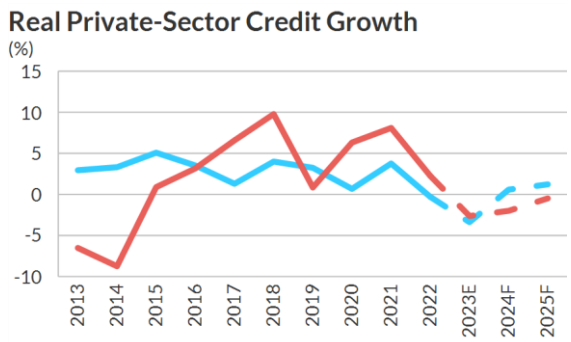
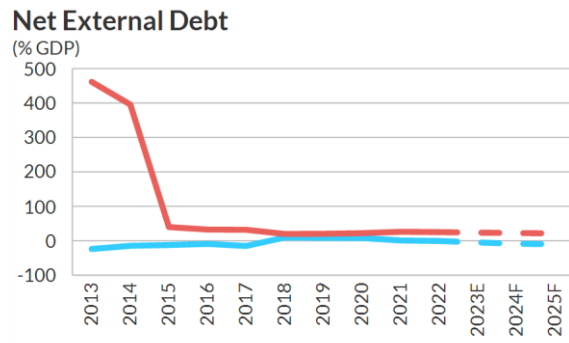
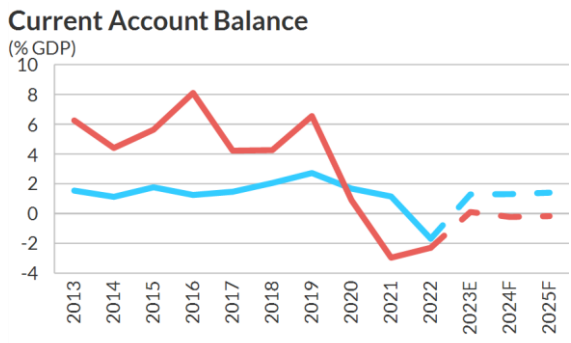
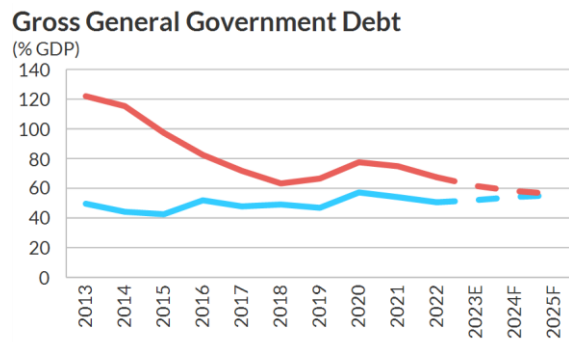
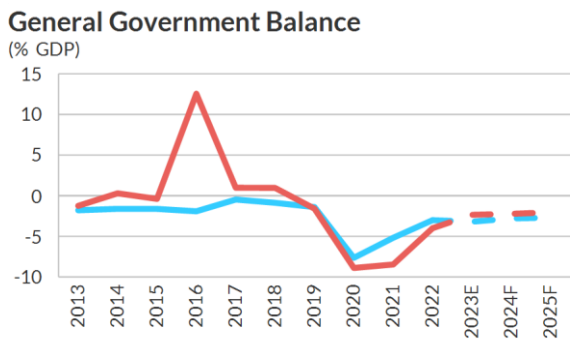
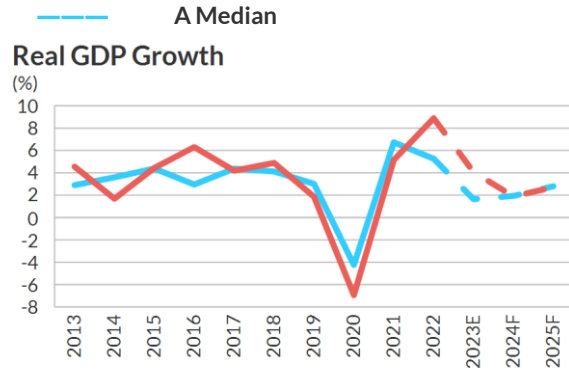
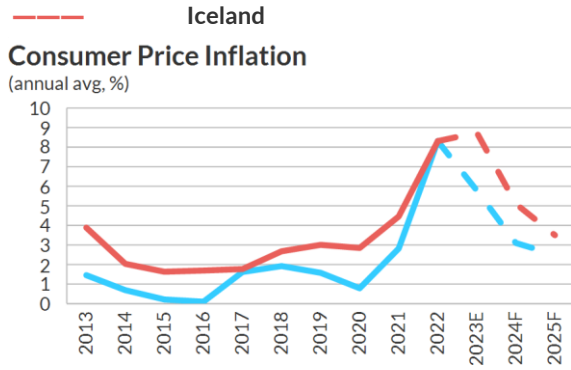
^a The latest rating uses the SRM result for 2023 from the chart. This will roll forward to 2024 in July 2024).

^b Historical SRM results in this table may differ from the chart, which is based on our latest data, due to data revisions.

Abbreviations: LT FC IDR = Long-Term Foreign-Currency Issuer Default Rating; SRM = Sovereign Rating Model; QO = Qualitative Overlay

Source: Fitch Ratings

Peer Analysis



Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank

Peer Analysis

2023E ^a	Iceland	A median	AA median	AAA median
Structural features				
GDP per capita (USD) [SRM]	82,995	31,522	52,208	65,874
Share in world GDP (%) [SRM]	0.0	0.0	0.0	0.0
Composite governance indicator (percentile, latest) [SRM] ^b	93.2	74.7	84.2	93.8
Human development index (percentile, latest)	98.9	82.4	89.4	94.7
Broad money (% GDP) [SRM]	44.6	88.9	98.4	93.3
Private credit (% GDP, 3-year average)	91.0	73.5	104.4	122.6
Dollarisation ratio (% bank deposits, latest)	11.0	10.5	10.3	14.4
Bank system capital ratio (% assets, latest)	24.0	15.9	16.5	14.9
Macroeconomic performance and policies				
Real GDP growth (% , 3-year average) [SRM]	4.9	3.7	2.2	2.1
Real GDP growth volatility (complex standard deviation) [SRM]	4.3	3.0	2.4	2.0
Consumer price inflation (% , 3-year average) [SRM]	7.4	2.3	2.1	1.8
Unemployment rate (%)	3.4	6.4	5.1	5.4
Public finances (general government)^c				
Balance (% GDP, 3-year average) [SRM]	-2.9	-2.4	-0.9	-0.2
Primary balance (% GDP, 3-year average)	0.0	-0.6	0.5	1.1
Interest payments (% revenue, 3-year average) [SRM]	6.7	4.4	3.5	3.6
Gross debt (% revenue, 3-year average)	145.2	133.9	139.5	113.4
Gross debt (% GDP, 3-year average) [SRM]	62.3	42.1	40.5	43.9
Net debt (% GDP, 3-year average)	53.5	36.6	34.3	37.2
FC debt (% gross debt, 3-year average) [SRM]	10.4	9.8	0.8	0.0
External finances^c				
Current account balance (% GDP, 3-year average)	-0.8	0.9	1.2	5.1
Current account balance + net FDI (% GDP, 3-year average) [SRM]	1.4	2.4	0.6	2.1
Commodity dependence (% CXR) [SRM]	39.4	11.7	15.4	14.9
Gross external debt (% GDP, 3-year average)	70.3	65.9	119.9	178.1
Net external debt (% GDP, 3-year average)	23.7	-8.1	-2.3	13.5
Gross sovereign external debt (% GXD, 3-year average)	12.6	19.0	17.7	11.5
Sovereign net foreign assets (% GDP, 3-year average) [SRM]	10.0	11.8	8.7	-4.6
External interest service (% CXR, 3-year average) [SRM]	1.7	2.3	4.1	7.3
Foreign-exchange reserves (months of CXP) [SRM]	4.7	4.4	2.9	1.4
Liquidity ratio	208.6	98.4	59.7	51.5

^a 3-year averages are centred on this year. Fitch does not forecast indicators labelled 'latest', meaning data may be lagging.

^b Composite of all six World Bank Worldwide Governance Indicators (see chart on the previous page).

^c See Appendix 2: Data Notes and Conventions for details of data treatment for public finances and external finances.

Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank, United Nations

Supplementary Information

BSI / MPI = - / 1. About the BSI and MPI: Fitch's bank systemic indicator (BSI) equates to a weighted average Viability Rating. The macro-prudential risk indicator (MPI) focuses on one potential source of financial stress, ranging from '3' - high potential vulnerability to financial stress over the medium term based on trends in credit expansion, equity and property prices and real exchange rates - to '1' - low likelihood. For more information, refer to Fitch Ratings' most recent Macro-Prudential Risk Monitor report.

Year cured from the most recent default or restructuring event, since 1980 = No event.

The de facto exchange rate regime, based on the latest IMF Annual Report on Exchange Arrangements and Exchange Restrictions report, is 'Floating'.

Rating Factors

Strengths

- World Bank Governance Indicators rank much higher than the 'A' and 'AA' rated medians, and are in line with 'AAA' rated peers.
- GDP and income per capita are far higher than the 'A' and 'AA' medians.
- Pension funds' assets were 180% of GDP at end-2023, providing support to the sovereign's fiscal financing flexibility.
- FX reserves were 4.7 months of external payments at end-2023, above the 'A' peer current median (2.8 months).

Weaknesses

- Volatility of real GDP growth and inflation are higher than the 'A' peer median.
- The general government debt ratio at 61.6% of GDP (2023) is above the 'A' current median ratio of 52.0% and 'AA' ratio of 50.6%.

Rating	Sovereign
A+	China
	Estonia
	Israel
	Malta
	Saudi Arabia
A	Iceland
	Japan
	Lithuania
	Ras Al Khaimah
	Slovenia
A-	Andorra
	Chile
	Latvia
	Poland
	Portugal
	Slovakia
	Spain

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Public Finances:** A marked deterioration in the debt/GDP ratio, for example, from a sustained period of fiscal loosening.
- Macro:** A severe economic shock, for example, due to a sharp correction in the real estate market.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Public Finances:** Increased confidence in a sharp and sustained decline in the government debt/GDP ratio.
- Macro:** Higher trend growth and evidence of economic diversification that reduces Iceland's vulnerability to external shocks.

Forecast Summary

	2020	2021	2022	2023E	2024F	2025F
Macroeconomic indicators and policy						
Real GDP growth (%)	-6.9	5.1	8.9	4.1	1.9	2.7
Unemployment (%)	6.4	6.0	3.8	3.4	4.2	4.2
Consumer price inflation (annual average % change)	2.8	4.5	8.3	8.7	5.1	3.5
Policy interest rate (annual average, %)	1.4	1.1	4.2	8.2	8.8	7.4
General government balance (% GDP)	-8.9	-8.5	-4.0	-2.4	-2.2	-2.0
Gross general government debt (% GDP)	77.5	74.8	67.4	61.6	58.1	56.2
ISK per USD (annual average)	135.4	127.0	135.3	137.9	135.6	135.0
Real private credit growth (%)	6.3	8.1	2.3	-2.6	-2.0	-0.5
External finance						
Merchandise trade balance (USDbn)	-0.6	-1.1	-1.6	-2.2	-2.3	-2.1
Current account balance (% GDP)	0.9	-3.0	-2.3	0.1	-0.2	-0.2
Gross external debt (% GDP)	90.5	84.0	74.3	70.4	66.1	63.0
Net external debt (% GDP)	22.1	26.0	25.1	23.6	22.4	21.2
External debt service (principal + interest, USDbn)	1.7	1.2	3.0	1.8	2.1	3.2
Official international reserves including gold (USDbn)	6.4	7.1	5.9	5.8	5.7	5.7
Gross external financing requirement (% international reserves)	16.3	25.9	46.3	27.0	34.4	52.9
Real GDP growth (%)						
US	-2.2	5.8	1.9	2.5	1.2	1.4
China	2.2	8.4	3.0	5.3	4.6	4.6
Eurozone	-6.4	5.4	3.5	0.5	0.7	1.7
World	-2.8	6.3	2.7	2.9	2.1	2.5
Oil (USD/barrel)	43.3	70.6	98.6	82.0	80.0	70.0

E - Estimate. F - Forecast
Source: Fitch Ratings

Sources and Uses

Public Finances (General Government)

(ISKbn)	2023	2024
Uses	222.4	227.6
Budget deficit	100.7	101.9
MLT amortisation	121.7	125.7
Domestic	83.2	89.4
External	38.5	36.3
Sources	222.4	227.6
Gross borrowing	152.5	147.3
Domestic	150.3	120.0
External	2.1	27.3
Privatisation	0.0	0.0
Other	18.6	-2.3
Change in deposits	51.3	82.6
(- = increase)		

Source: Fitch Ratings

External Finances

(USDbn)	2023	2024
Uses	1.6	2.0
Current account deficit	0.0	0.1
MLT amortisation	1.6	1.9
Sovereign	0.3	0.5
Non-sovereign	1.3	1.4
Sources	1.6	2.0
Gross MLT borrowing	2.2	2.4
Sovereign	0.2	0.7
Non-sovereign	2.0	1.7
FDI	0.5	0.4
Other	-1.1	-0.9
Change in FX reserves	0.0	0.1
(- = increase)		

Source: Fitch Ratings

Credit Developments

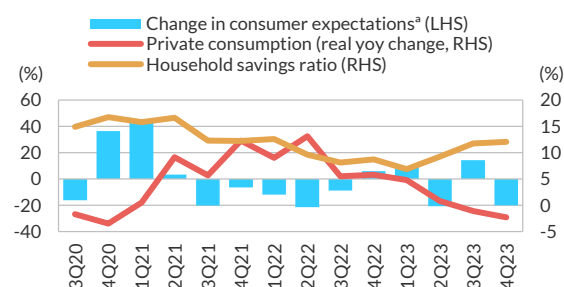
Economic Resilience

GDP growth is set to moderate in 2024 (to 1.9% versus 4.1% in 2023), but continue to outperform most European peers (Fitch's latest eurozone growth forecast is 0.7%). Tighter monetary policy has led to a more pronounced slowdown in domestic demand than previously anticipated.

Private consumption slowed markedly in 2H23, despite strong labour market activity and positive real wage growth eroding 0.9pp from headline GDP in 2H23, compared to a positive contribution of 1.4pp in 1H23. With consumer sentiment indicators still in sub-50 territory, we expect trends in private consumption to stay weak in 1H24. The real GDP contribution from gross fixed capital investment was also negative 1.3pp in 2H23, compared with 1.1pp growth in 1H23. The decline was largely driven by weakening business investment, as residential investment remained stable. Overall business sentiment remains tepid, underpinned by the contraction in imports of capital goods in 2H23.

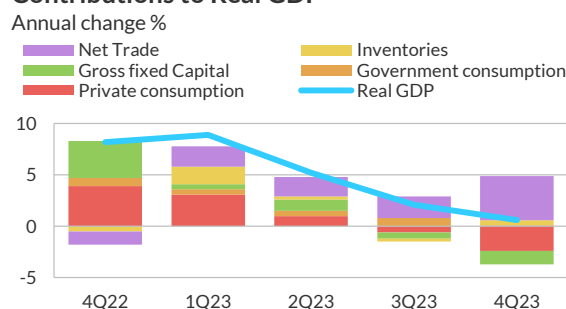
Eventual easing of monetary policy and an improved external trade environment should boost growth in 2H24. A potential risk to our GDP forecast is the ongoing seismic unrest in the Reykjanes peninsula. Indicators for tourism have shown some recent weakness in demand, although we expect the outlook for the sector to remain positive. A stronger recovery in external trade and pick-up in private sector investment will support GDP growth of 2.7% in 2025.

Household Sentiment



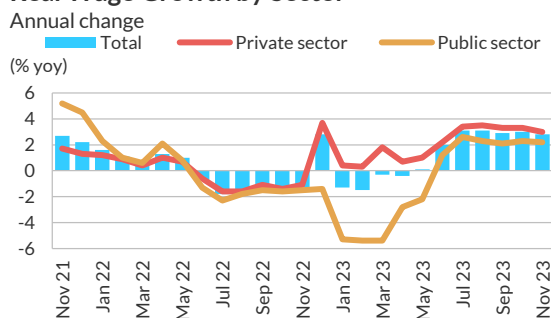
* Gallup Consumer Confidence Index (expectations six months ahead)
Source: Fitch Ratings, Statistics Iceland, CBI

Contributions to Real GDP



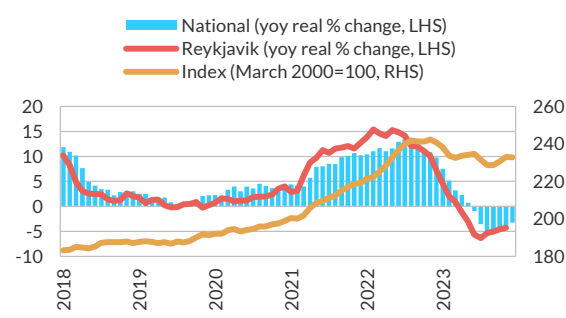
Source: Fitch Ratings, Central Bank of Iceland, Statistics Iceland

Real Wage Growth by Sector



Source: Fitch Ratings, Statistics Iceland

Real House Prices



Source: Fitch Ratings, Central Bank of Iceland, Statistics Iceland

Inflation Risks; Wage Negotiations Conclude

Headline inflation reached 6.6% in February 2024, having peaked at 10.2% in February 2023. Lower prices in domestic and imported goods are driving the decline. By contrast, the decline in services inflation has been more modest, particularly in the private sector. This partly reflects last year's strong domestic demand and robust recovery in the tourism sector, but more likely the effect of high wages. Private sector nominal wage increases in the first 11 months of 2023 averaged 10.9%, compared to 7.9% over the same period the previous year.

On 8 March, a new long-term collective wage agreement was reached between labour unions and business stakeholders. The agreement is effective for 2024-2028 and will mean annual increases averaging 3.25%-3.5%. In addition, the government introduced a ISK80 billion (1.87% of GDP) support package to be implemented over the four-year contract period. The package (not included into our 1 March forecasts) includes higher housing support for families in rental housing, increases in child benefits, free school meals, higher maternity leave payments and special support for households facing higher interest costs on housing loans.

The CBI has kept its key policy rate on hold at 9.25% since August 2023. The recent slowdown in domestic activity, particularly private consumption, suggests the central bank’s policy rate is likely to have peaked. However, we do not expect the it to begin monetary easing until late 2Q24. Although headline and underlying inflation have come down, they remain well above the inflation target of 2.5%.

Inflation Expectations

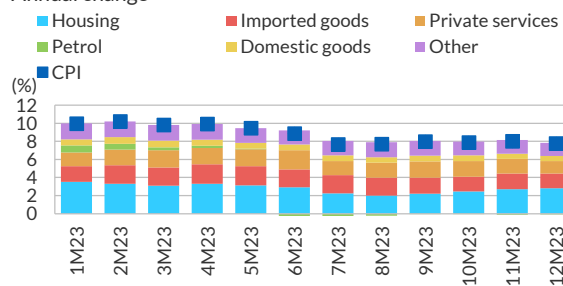
Annual change



Source: Fitch Ratings, Central Bank of Iceland, Statistics Iceland

Contributions to CPI

Annual change



Source: Fitch Ratings, Central Bank of Iceland, Statistics Iceland

2024 Fiscal Budget; Commitment to Fiscal Consolidation

The 2024 Fiscal Budget prioritises fiscal consolidation in line with the government’s medium-term fiscal plan (2024-2028), with both revenue and expenditure measures. Public investment in certain priorities, such as healthcare, social housing and energy transition has increased but aggregate investment spending remains restrained, with the authorities postponing about ISK4.9 billion (0.1% of GDP) in previously planned infrastructure projects.

The authorities also aim to achieve savings by streamlining ministerial operations (ISK17 billion, 0.4% of GDP). This is in addition to revenue-raising measures of about ISK21 billion (0.5% of GDP). These include a rise in excise duties on fuel and alcohol, implementation of a new motoring tax scheme (Phase 1), and an increase and broadening of the hotel accommodation tax.

The authorities are targeting a fiscal deficit of 1.0% of GDP at the central government level in 2024. Our projected deficit is 1.5%. Our forecast assumes a lower real GDP forecast of 1.9% against the budget forecast of 2.1% real GDP growth. We have also assumed higher expenses related to the seismic activity in the Reykjanes peninsula.

The 2024 budget already included ISK3 billion (<0.1% of GDP) in measures concerning Grindavík. However, since then, two supplementary budgets have been approved. The first extended wage support and housing benefits for affected residents, in addition to income support grants for businesses in the area (0.2% of GDP). The second concerned the state’s purchase of residential housing in Grindavík.

Most direct support measures will be covered by the state’s general contingency fund, which went up to 1.7% of GDP from 1.0% of GDP in the 2024 budget. We do not expect the home purchase programme to affect the fiscal deficit, as operations will be conducted through an SPV.

Declining Public Debt Ratio

Better-than-expected fiscal outturns relative to both Fitch’s and government projections¹ will support a continued decline in the general government debt ratio. We estimate Iceland’s general government debt ratio to have reached 61.6% of GDP in 2023 having peaked at 77.5% of GDP in 2020, falling below its pre-pandemic 2019 ratio of 66.5% of GDP. Much of the debt decline has been driven by robust nominal GDP growth, and the running down of accumulated cash deposits². We project a more modest pace of debt reduction over the medium term, reflecting a slower pace of nominal GDP growth, although underpinned by a return to primary fiscal surpluses.

Risks to our debt projections are balanced. It remains uncertain how much the State Treasury will contribute to the financing of the SPV responsible for Grindavík’s home purchase programme, as it partly depends on residents’ participation rate. The government estimates a potential debt increase of ISK25 billion (0.6% of GDP) through

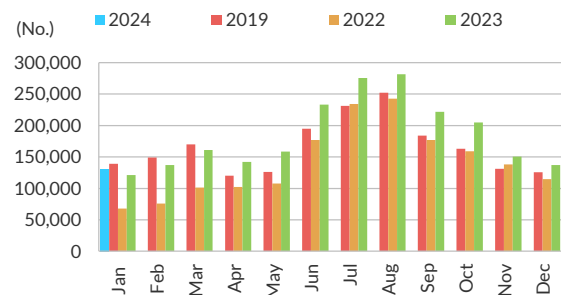
¹ The 2023 budget targeted a central government deficit 3.0% of GDP. Higher-than-budgeted receipts in tax revenue, boosted by high inflation and strong economic activity, help partly offset higher government spending. In total, central government revenues increased 12.1% yoy, compared to expenditure growth of 7.3% yoy.

² In May 2023, the rundown of deposits reflects a 52% buyback (ISK38.4 billion, 0.9% of GDP) of a Eurobond maturing in June 2024.

possible on-lending and capital equity to the SPV. Meanwhile, debt reduction could come from this year's planned sale of the government's remaining 42.5% stake in Íslandsbanki, although we have not included this in our forecast.

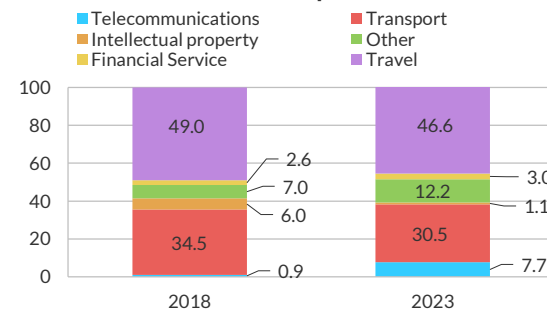
At end-2023, liabilities of the HF fund, which we account for in our gross general government debt figure, totalled around 15% of GDP. Steady progress has been made on the government's long-standing plans to wind down its state-owned housing fund. In February, formal negotiations opened between the government and key investors of securities to reach an agreement on how the government guarantee on the outstanding HF Fund debt securities will be met. It remains uncertain how long negotiations will take³.

Number of Foreign Passengers



Source: Fitch Ratings, Statistics Iceland

Share of Total Services Exports



Source: Fitch Ratings, Central Bank of Iceland, Statistics Iceland

Return to Current Account Surplus

Iceland's current account returned to a surplus of 1.0% of GDP in 2023, after deficits of 2.7% in 2021 and 1.7% in 2022. The improvement was led by a narrowing of the trade deficit due to a robust services surplus (6.7% of GDP in 2023 versus 5.1% in 2022) offsetting still large deficits in goods trade, in addition to a 2.2% of GDP surplus in the primary income balance after a 0.4% of GDP deficit the previous year.

We expect modest current account surpluses in 2024-2025, averaging 0.4% of GDP. This is well below the average five-year surplus of 5.7% of GDP between 2015-2019. After a robust post-pandemic recovery, we anticipate capacity challenges to Iceland's tourism sector over the short to medium term. Potential upside to growth in external trade (both goods and services) could come from further expansion into higher value-added industries. There are already early signs of investment in higher-productivity and less cyclically sensitive sectors, such as biotechnology and ICT. Iceland is also well positioned to increase its global competitive advantage in fish farming.

³ The HF Fund has sufficient liquid assets to meet its liabilities over the next few years, although losses related to an interest-rate mismatch between the institution's assets and liabilities would eventually require additional capital contribution from the government.

Public Debt Dynamics

General government debt will decline gradually over the medium term, according to Fitch's baseline projections. Stock-flow adjustments largely assume the use of government deposits to meet upcoming maturities where borrowing is not planned. In June 2024, there is a Eurobond maturity of EUR241 million (0.8% of GDP). The next Eurobond maturity is in 2026 of EUR500 million (1.6% of GDP). The potential sale of the government's stake in Islandbanki and financing of Grindavík's home purchase programme is not accounted for in the stock-flow adjustment.

Debt Dynamics - Fitch's Baseline Assumptions

	2021	2022	2023	2024	2025	2026	2027
Gross general government debt (% of GDP)	74.8	67.4	61.6	58.1	56.2	56.4	55.9
Primary balance (% of GDP)	-6.7	-1.3	0.6	0.6	0.2	0.4	0.7
Real GDP growth (%)	5.1	8.9	4.1	1.9	2.7	2.5	2.5
Average nominal effective interest rate (%)	2.5	4.3	4.9	5.4	5.7	5.3	4.9
ISK/USD (annual avg)	127.0	135.3	137.9	135.6	135.0	135.0	135.0
GDP deflator (%)	6.4	8.9	5.9	4.7	3.0	2.5	2.5
Stock-flow adjustments (% of GDP)	0.0	0.0	-1.5	-2.1	-1.7	0.4	0.3

Source: Fitch Ratings

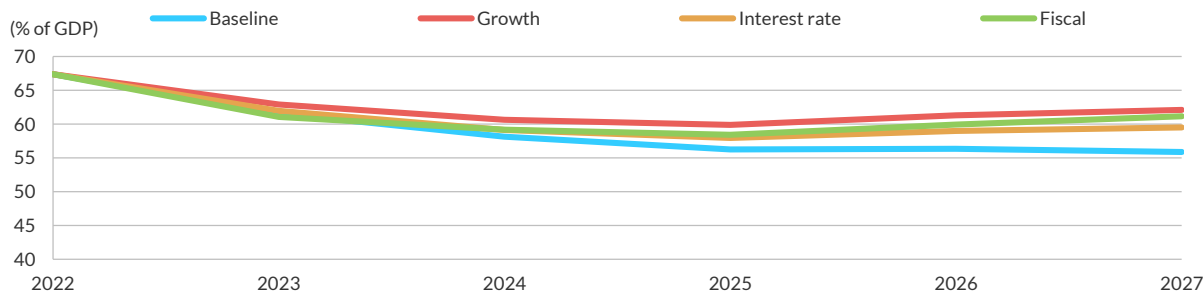
Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 1.6% lower (half standard deviation lower)
Interest rate	Marginal interest rate 250bp higher
Fiscal	Persistent primary fiscal deficits (average 1.0% of GDP)

Source: Fitch Ratings

Sensitivity Analysis

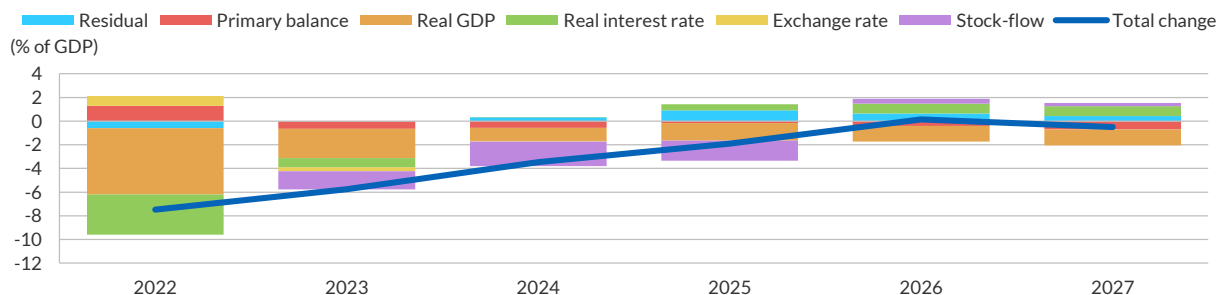
Gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

Baseline Scenario: Debt Creating Flows

Change in gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

About the Public Debt Dynamics

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

Data Tables

General Government Summary

(% GDP)	2017	2018	2019	2020	2021	2022	2023E	2024F	2025F
Revenue	45.4	44.8	42.0	42.2	41.1	42.5	43.4	42.9	43.1
Expenditure	44.4	43.8	43.6	51.1	49.5	46.5	45.8	45.2	45.2
o/w interest payments	2.5	1.7	1.6	1.6	1.8	2.7	3.1	2.8	2.2
Interest payments (% revenue)	5.5	3.7	3.8	3.9	4.3	6.4	7.1	6.5	5.1
Primary balance	3.5	2.6	0.0	-7.3	-6.7	-1.3	0.7	0.6	0.2
Overall balance	1.0	1.0	-1.6	-8.9	-8.5	-4.0	-2.4	-2.2	-2.0
Gross government debt	71.7	63.2	66.5	77.5	74.8	67.4	61.6	58.1	56.2
Percentage of government revenue	158.1	141.2	158.5	183.6	182.2	158.6	141.7	135.3	130.4
Issued in domestic market	67.3	58.9	60.4	69.1	64.3	59.3	55.3	52.5	51.0
Issued in foreign markets	4.4	4.4	6.2	8.4	10.5	8.1	6.2	5.6	5.3
Local currency	67.3	58.9	60.4	69.1	64.3	59.3	55.3	52.5	51.0
Foreign currency	4.4	4.4	6.2	8.4	10.5	8.1	6.2	5.6	5.3
Central government deposits	7.2	7.9	8.4	16.7	14.5	11.1	8.9	6.5	5.4
Net government debt	64.6	55.4	58.1	60.8	60.3	56.2	52.6	51.6	50.8
Financing	-1.0	1.6	8.9	8.5	4.0	2.4	2.2	2.0	
Domestic borrowing	-3.7	5.0	6.8	2.5	5.0	1.6	0.7	1.3	
External borrowing	-0.2	1.9	1.8	2.7	-1.5	-0.8	-0.2	0.0	
Other financing	2.9	-5.3	0.3	3.2	0.5	1.6	1.8	0.7	
Change in deposits (- = increase)	-1.2	-1.0	-8.0	0.4	1.1	1.2	1.8	0.7	
Privatisation	0.0	0.0	0.0	1.7	1.9	0.0	0.0	0.0	
Other	4.1	-4.4	8.3	1.1	-2.6	0.4	-0.1	0.0	

E - Estimate, F - Forecast
Source: Fitch Ratings, Ministry of Finance

Balance of Payments

(USDbn)	2017	2018	2019	2020	2021	2022	2023E	2024F	2025F
Current account ^a	1.0	1.1	1.6	0.2	-0.7	-0.5	0.3	-0.1	-0.1
(% GDP)	4.2	4.3	6.5	0.9	-2.7	-1.7	1.0	0.2	0.6
Goods	-1.5	-1.5	-0.8	-0.6	-1.1	-1.5	-2.1	-2.2	-1.9
Services	2.6	2.4	2.0	0.3	0.6	1.5	2.1	2.1	2.2
Primary income	0.1	0.4	0.7	0.7	0.0	-0.1	0.6	0.4	0.3
Secondary income	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.4	-0.3	-0.3
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	1.1	1.5	1.0	1.5	-1.2	0.0	0.0	0.0	0.0
Direct investment	-0.2	0.5	0.7	0.5	-0.5	-1.1	-0.5	-0.4	-0.3
Portfolio investment	2.3	1.1	0.7	1.0	0.0	1.1	0.5	0.6	0.5
Derivatives	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Other investments	-1.1	-0.1	-0.5	-0.1	-0.8	-0.2	0.0	-0.2	-0.3
Net errors and omissions	-0.7	0.5	-0.1	1.1	0.7	0.2	0.0	0.0	0.0
Change in reserves (+ = increase)	-0.8	0.0	0.6	-0.2	1.1	-0.5	0.0	-0.1	0.0
International reserves, incl. gold	6.6	6.3	6.8	6.4	7.1	5.9	5.8	5.7	5.7
Liquidity ratio (%)	211.2	184.4	213.1	259.3	325.0	209.4	208.6	205.8	169.8
Memo									
Current external receipts (CXR)	12.3	13.2	12.0	8.1	10.6	14.2	14.8	15.1	15.8
Current external payments (CXP)	11.3	12.1	10.3	8.0	11.3	14.8	14.8	15.2	15.9
CXR growth (%)	10.7	7.4	-9.7	-31.9	29.6	34.2	4.4	2.3	4.7
CXP growth (%)	19.3	7.5	-14.7	-23.1	42.4	30.9	-0.4	3.0	4.6
Gross external financing requirement	0.0	1.0	0.0	1.1	1.7	3.3	1.6	2.0	3.0
Percentage of international reserves	-0.5	15.3	0.7	16.3	25.9	46.3	27.0	34.4	52.9
Net external borrowing	-5.9	-1.2	-0.9	-0.9	2.4	0.8	0.5	0.4	0.3

^a Updated data and forecast since press release (1 March 2024), to reflect the latest release from CBI

E - Estimate. F - Forecast

Source: Fitch Ratings, IMF

External Debt and Assets

(USDbn)	2017	2018	2019	2020	2021	2022	2023E	2024F	2025F
Gross external debt	22.5	20.1	19.5	19.6	21.7	21.3	21.8	22.3	22.5
% GDP	91.1	76.7	79.1	90.5	84.0	74.3	70.4	66.1	63.0
% CXR	182.8	152.1	163.2	240.3	205.2	150.6	147.6	147.1	142.2
Short-term debt (% GXD)	7.2	7.9	6.9	7.7	8.1	10.8	10.8	10.8	10.8
By debtor									
Sovereign	2.8	2.6	3.0	2.8	3.7	2.8	2.6	2.8	2.9
Monetary authorities	0.4	0.4	0.5	0.4	0.7	0.6	0.4	0.5	0.5
General government	2.5	2.2	2.5	2.4	3.0	2.2	2.2	2.4	2.4
Banks	5.8	5.9	5.5	5.9	6.4	6.9	7.1	7.1	7.0
Other sectors	13.9	11.7	10.9	11.0	11.6	11.6	12.1	12.3	12.6
Gross external assets (non-equity)	14.6	15.0	14.5	14.8	15.0	14.1	14.5	14.7	15.0
Sovereign	6.6	6.3	6.8	6.4	7.1	5.9	5.8	5.7	5.7
International reserves, including gold	6.6	6.3	6.8	6.4	7.1	5.9	5.8	5.7	5.7
Other sovereign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	3.1	3.6	3.1	3.4	3.3	3.5	4.4	4.4	4.4
Other sectors	5.1	5.1	4.7	5.1	4.6	4.8	5.0	5.2	5.5
Net external debt	7.9	5.2	5.0	4.8	6.7	7.2	7.3	7.6	7.6
(% GDP)	31.8	19.7	20.3	22.1	26.0	25.1	23.6	22.4	21.2
Sovereign	-3.7	-3.7	-3.8	-3.7	-3.4	-3.1	-3.3	-3.0	-2.8
Banks	2.8	2.3	2.5	2.6	3.1	3.5	3.5	3.4	3.4
Other sectors	8.8	6.6	6.2	5.9	7.0	6.8	7.0	7.1	7.1
International investment position									
Assets	29.2	29.2	32.1	35.3	39.7	35.8	-	-	-
Liabilities	28.7	26.9	27.1	27.4	30.0	29.2	-	-	-
Net	0.5	2.3	5.0	7.9	9.7	6.6	-	-	-
Net sovereign	3.7	3.7	3.8	3.7	3.4	3.1	3.3	3.0	2.8
(% GDP)	15.1	14.2	15.2	17.0	13.1	10.9	10.5	8.8	7.9
External debt service (principal + interest)	1.6	2.6	2.1	1.7	1.2	3.0	1.8	2.1	3.2
Interest (% CXR)	4.6	3.5	3.8	5.1	2.6	2.4	1.5	1.3	1.2

E - Estimate, F - Forecast

Source: Fitch Ratings, central bank, IMF, World Bank

Full Rating Derivation

Long-Term Foreign-Currency Issuer Default Rating (SRM + QO)

A

Sovereign Rating Model					Applied Rating ^d			A
Input Indicator	Weight (%)	2022	2023	2024	Model Result and Predicted Rating			10.95 = A
					Adjustment to Final Data	Final Data	Coefficient	Output (notches)
Structural features								9.27
Governance indicators (percentile)	21.4	n.a.	93.2	n.a.	-	93.2	0.077	7.22
GDP per capita (USD)	12.4	n.a.	82,995	n.a.	Percentile	94.9	0.038	3.63
Nominal GDP (% world GDP)	13.9	n.a.	0.03	n.a.	Natural log	-3.5	0.627	-2.18
Most recent default or restructuring	4.6	n.a.	None	n.a.	Inverse 0-1 ^a	0.0	-1.822	0
Broad money (% GDP)	1.2	n.a.	44.6	n.a.	Natural log	3.8	0.158	0.60
Macroeconomic performance, policies and prospects								-1.24
Real GDP growth volatility	4.6	n.a.	4.3	n.a.	Natural log	1.5	-0.728	-1.06
Consumer price inflation	3.4	8.3	8.7	5.1	3-year average ^b	7.4	-0.067	-0.50
Real GDP growth	2.0	8.9	4.1	1.9	3-year average	4.9	0.065	0.32
Public finances								-1.91
Gross general govt debt (% GDP)	8.9	67.4	61.6	58.1	3-year average	62.3	-0.023	-1.42
General govt interest (% revenue)	4.5	6.4	7.1	6.5	3-year average	6.7	-0.044	-0.29
General govt fiscal balance (% GDP)	2.4	-4.0	-2.4	-2.2	3-year average	-2.9	0.044	-0.13
FC debt (% of total general govt debt)	2.7	11.5	10.2	9.6	3-year average	10.4	-0.007	-0.08
External finances								0.07
Reserve currency (RC) flexibility	7.3	n.a.	0.0	n.a.	RC score 0 - 4.5 ^c	0.0	0.509	0
SNFA (% of GDP)	7.4	10.9	10.5	8.8	3-year average	10.0	0.011	0.11
Commodity dependence	1.2	n.a.	39.4	n.a.	Latest	39.4	-0.004	-0.17
FX reserves (months of CXP)	1.5	n.a.	4.7	n.a.	n.a. if RC score > 0	4.7	0.029	0.14
External interest service (% CXR)	0.4	2.4	1.5	1.3	3-year average	1.7	-0.007	-0.01
CAB + net FDI (% GDP)	0.1	1.4	1.7	1.0	3-year average	1.4	0.001	0.00
Intercept Term (constant across all sovereigns)								4.76

^a Inverse 0-1 scale, declining weight; ^b of truncated value (2%-50%); ^c Declining weight; ^d Sovereign rating committee can override SRM Predicted Rating if a marginal change in the Model Result leads to a notch change which is judged to be temporary or caused by a re-estimation of the SRM, a process that Fitch undertakes on at least an annual basis. Please refer to the Rating Action Commentary for further information when the Applied Rating differs from the Predicted Rating.

Note: This table contains data as at the date of the most recent rating action. There may be minor differences to data presented elsewhere in this report, which may have been updated where appropriate, for example in the event of subsequent data releases.

Source: Fitch Ratings

Qualitative Overlay (notch adjustment, range +/-3)	0
Structural features	0
Macroeconomic outlook, policies and prospects	0
Public finances	0
External finances	0

Source: Fitch Rating

About the SRM and QO

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

Supplementary Ratings

Local-Currency Rating

Iceland's credit profile does not support an uplift of the Long-Term (LT) Local-Currency (LC) IDR above the LT FC IDR. In Fitch's view, neither of the two main factors supporting the upward notching of the LT LC IDR cited in the criteria is present, namely: strong public finance fundamentals relative to external finance fundamentals; and previous preferential treatment of LC creditors relative to FC creditors.

Country Ceiling

The Country Ceiling for Iceland is 'A+', 1 notch above the LT FC IDR. This reflects moderate constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of +2 notches above the IDR. Fitch's rating committee applied an offsetting -1 notch qualitative adjustment to this, under the Balance of Payments Restriction pillar, reflecting Iceland's short track record of full liberalisation from capital controls that were in place during 2008-2019.

Overall Country Ceiling Uplift (CCM + QA, notches)				+1
Country Ceiling Model (CCM, notches)				+2
Pillar I = Balance of payments restrictions				+3
Current account restrictions (% of 40)	Latest	10.0		+3
Capital account restrictions (% of 69)	Latest	15.9		+3
Combined pillar II and III incentives score				+1
Pillar II = Long-term institutional characteristics				+2
Governance (WB WGI)	Latest	93.2		+3
International trade				+1
Trade openness	2019-2023 average	45.2		+2
Volatility of change in CXR (across 10 years)	2023	18.7		0
Export share to FTA partners	2019-2023 average	86.4		+3
International financial integration^a	2019-2023 average	50.4		+2
Pillar III = Near-term risks				+1
Macro-financial stability risks				+1
Composite inflation risk score				+1
Volatility of CPI (across 10 years)	2023	2.7		+2
Recent CPI peak	2019-2023 maximum	8.7		+3
Cumulative broad money growth	2018-2023 change %	69.4		+1
Volatility of change in REER (across 10 years)	2023	7.0		+1
Dollarisation	Most recent	11.0		+2
Exchange rate risks				+2
Net external debt (% of CXR)	2021-2023 average	54.6		+1
Exchange rate regime	Latest	Floating		+3
Qualitative Adjustment (QA, notches)				-1
Pillar I = Balance of payments restrictions				-1
Pillar II = Long-term institutional characteristics				0
Pillar III = Near-term macro-financial stability risks				0

^a Data for international financial integration is the average of private external assets (% of GDP) & private external debt (% GDP). Source: Fitch Ratings

Full Rating History

Date	Foreign-Currency Rating			Local-Currency Rating			Country ceiling
	Long-Term	Short-Term	Outlook/watch	Long-Term	Short-Term	Outlook/Watch	
18 March 2022	A	F1+	Stable	A	F1+	Stable	A+
22 May 2020	A	F1+	Negative	A	F1+	Negative	A+
24 May 2019	A	F1+	Stable	A	F1+	Stable	A+
8 December 2017	A	F1	Stable	A	F1	Stable	A
7 July 2017	A-	F2	Positive	A-	F1	Positive	A-
13 January 2017	BBB+	F2	Positive	BBB+	F2	Positive	BBB+
22 July 2016	BBB+	F2	Stable	BBB+	F2	Stable	BBB+
24 July 2015	BBB+	F2	Stable	A-	-	Stable	BBB+
30 January 2015	BBB	F3	Positive	BBB+	-	Positive	BBB
14 February 2013	BBB	F3	Stable	BBB+	-	Stable	BBB
17 February 2012	BBB-	F3	Stable	BBB+	-	Stable	BBB-
16 May 2011	BB+	B	Stable	BBB+	-	Stable	BB+
5 January 2010	BB+	B	Negative	BBB+	-	Negative	BB+
23 December 2009	BBB-	F3	Negative	A-	-	Negative	BBB-
8 October 2008	BBB-	F3	Watch Negative	A-	-	Watch Negative	BBB-
30 September 2008	A-	F2	Watch Negative	AA	-	Watch Negative	A
1 April 2008	A+	F1	Negative	AA+	-	Negative	AA-
15 March 2007	A+	F1	Stable	AA+	-	Stable	AA-
21 February 2006	AA-	F1+	Negative	AAA	-	Negative	AA
17 June 2004	AA-	F1+	Stable	AAA	-	Stable	AA
31 March 2003	AA-	F1+	Stable	AAA	-	Stable	-
15 February 2002	AA-	F1+	Negative	AAA	-	Negative	-
26 February 2001	AA-	F1+	Stable	AAA	-	-	-
21 September 2000	AA-	F1+	Stable	AAA	-	Stable	-
3 February 2000	AA-	F1+	-	AAA	-	-	-

Source: Fitch Ratings

Appendix 1: Environmental, Social and Governance (ESG)

Credit Relevance Scores

General Issues	Key Sovereign Issues	SRM	QO	Score ^a
Environmental (E)				
GHG Emissions and Air Quality	Emissions and air pollution as a constraint on GDP growth	2	2	2
Energy Management	Energy resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	2	3
Water Resources and Management	Water resource availability and management as a constraint on GDP growth	2	2	2
Biodiversity and Natural Resource Management	Natural resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	3	3
Natural Disasters and Climate Change	Impact of adverse climate trends, and likelihood of and resilience to shocks	3	3	3
Social (S)				
Human Rights and Political Freedoms	Social stability, voice and accountability and regime legitimacy	4	2	4 +
Human Development, Health and Education	Impact of human development, health and education on GDP per capita and GDP growth	3	2	3
Employment and Income Equality	Impact of unemployment and income equality on GDP per capita, GDP growth and political and social stability	3	2	3
Public Safety and Security	Impact of public safety and security on business environment and economic performance	3	2	3
Demographic Trends	Population decline or aging, rapidly rising youth population; pensions sustainability	3	2	3
Governance (G)				
Political Stability and Rights	Political divisions and vested interests; geo-political risks including conflict, security threats and violence; policy capacity: unpredictable policy shifts or stasis	5	2	5 +
Rule of Law, Institutional & Regulatory Quality, Control of Corruption	Government effectiveness, control of corruption, rule of law and regulatory quality	5	2	5 +
International Relations and Trade	Trade agreements, membership of international organizations, bilateral relations; sanctions or other costly international actions	3	2	3
Creditor Rights	Willingness to service and repay debt	4	2	4 +
Data Quality and Transparency	Availability, limitations and reliability of economic and financial data, including transparency of public debt and contingent liabilities	3	2	3

Source: Fitch Ratings

About ESG Credit Relevance Scores

The scores signify the credit relevance of the respective E, S and G issues to the sovereign entity's credit rating, according to the following scale:

- 5 – Highly relevant to the rating, a key rating driver with a high weight.
- 4 – Relevant to the rating, a rating driver.
- 3 – Relevant, but only has an impact on the entity rating in combination with other factors.
- 2 – Irrelevant to the entity rating but relevant to the sector (sovereigns).
- 1 – Irrelevant to the entity rating and to the sector (sovereigns).

The score for each 'General Issue' comprises a component SRM and QO score and is simply the higher of the two. SRM scores are fixed across all sovereigns as the weights in the SRM are the same for all sovereigns; QO component scores vary across all sovereigns.

All scores of '4' or '5' result in a negative impact on the rating, unless indicated otherwise. Where a positive effect is occurring, the score of '4' or '5' is appended with a '+' symbol. Scores of '3', '2' and '1' do not have a direction of impact assigned.

Please refer to [ESG Relevance Scores for Sovereigns](#) for further information on the framework, including 'Sovereign Rating Criteria References' (which identify specific potentially related SRM variables and QO factors for each 'General Issue').

Credit-Relevant ESG Derivation

Iceland has an ESG Relevance Score of '5[+]' for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM and are, therefore, highly relevant to the rating and a key rating driver with a high weight. As Iceland has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Iceland has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional and Regulatory Quality and Control of Corruption, as World Bank Governance Indicators have the highest weight in Fitch's SRM and are, therefore, highly relevant to the rating and are a key rating driver with a high weight. As Iceland has a percentile rank above 50 for the respective Governance Indicators, this has a positive impact on the credit profile.

Iceland has an ESG Relevance Score of '4[+]' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Governance Indicators is relevant to the rating and a rating driver. As Iceland has a percentile rank above 50 for the respective Governance Indicator, this has a positive effect on the credit profile.

Iceland has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Iceland, as for all sovereigns. As Iceland has a track record of 20+ years without a restructuring of public debt and captured in our SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Appendix 2: Data Notes and Conventions

Acronyms

Acronyms used in the above table and elsewhere in report are: Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Current Account Balance (CAB), Foreign Direct Investment (FDI), World Bank Worldwide Governance Indicators (WBI), Sovereign Rating Model (SRM), Qualitative Overlay (QO). For a full list of indicator definitions, please refer to the most recent Sovereign Data Comparator.

Medians

Medians underlying the SRM relative to rating category chart on the Rating Summary page and as reported in the Peer Analysis table on page 4 are long-term historical medians. These are based on actual data since 2000 for all sovereign-year observations when the sovereign was in the respective rating category at year-end. Current year ratings and data are excluded.

Chart medians on page 3 are based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period.

Notes for Iceland

All data are on a calendar-year basis, which aligns with the domestic fiscal year for this sovereign.

Public finances data referenced in this report relate to the consolidated general government, in line with our principal approach, unless specifically noted or otherwise cited.

The external balance sheet data referenced in this report are derived from the international investment position dataset, in line with our principal approach.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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