Iceland

November 11, 2024

This report does not constitute a rating action.

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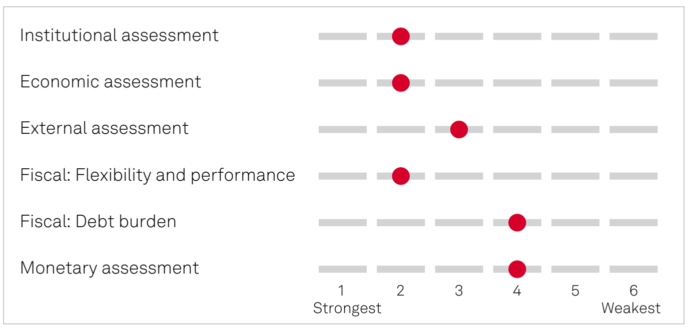
Ratings Score Snapshot



Sovereign credit rating
Foreign currency
A+/Stable/A-1
Local currency
A+/Stable/A-1

Credit Highlights

Overview

Institutional and economic profile	**Flexibility and performance profile**
Iceland's institutional settings are strong and per capita income levels are high, but the economy remains concentrated on a few key sectors, including aluminum, fishing, and tourism.	We project that Iceland will remain in a net external creditor position through 2027, while fiscal imbalances will remain contained, despite the widening budget deficit in 2024 on the back of additional spending due to seismic activity on the Reykjanes peninsula.
-- After strong economic performance in recent years, real GDP contracted in the first half of 2024, due to weaker outturns in key fishing and tourism sectors, but we expect a rebound from 2025 with growth averaging 2.3% in 2025-2027.	-- Seismic activity on the Reykjanes peninsula forced the evacuation of the town of Grindavik in November 2023. We forecast that various support measures to affected residents will underpin a widening of the general government deficit to 2.5% of GDP in 2024 from 1.4% of GDP in 2023.
-- In mid-October 2024 the ruling three-party coalition fell apart, and elections will take place on Nov. 30. We expect broad policy continuity regardless of who wins.	-- Nevertheless, beyond 2024, we expect a continued focus on fiscal prudence with fiscal deficits averaging 1.1% of GDP through 2027.
-- More specifically, we expect future governments to pursue broadly similar economic and social policies, as well as retain a focus on fiscal consolidation and environmental protection.	-- We expect Iceland's external performance to remain strong, characterized by a net external creditor position vis -a-vis the rest of the world (bolstered by private sector pension savings) and only marginal current account deficits over the next three years.

Iceland's ruling three-party coalition, led by prime minister Bjarni Benediktsson of the center-right Independence Party (IP), was dissolved in October 2024, and elections have been scheduled for Nov. 30. It appears that disagreements over policy direction, as well as infighting, led to the dissolution. Current opinion polls suggest that the opposition Social Democrats may lead the next government. We expect broad policy continuity, with an agenda focused on prudent public finances, regardless of the election outcome.

Through 2024, Iceland has continued to be impacted by seismic activity on the Reykjanes peninsula. The 3,700 residents of the town of Grindavík on the Reykjanes peninsula were evacuated in November 2023, just prior to a series of volcanic eruptions that threatened the town between November 2023 and March 2024. After a lull from April, seismic activity started again slightly farther away from the town in August, but activity has since subsided. The Reykjanes peninsula also hosts the country's largest airport, Keflavik, but flights have been largely unaffected. To support the residents through the difficult period, the government, banks, and other entities created a special purpose financial vehicle (SPV) that allows residents of the town to sell their houses for 95% of the insured value. Total support for the residents will cost the government about Icelandic krona (ISK) 48 billion, or 1.1% of GDP. The housing stock in Grindavík amounts to about 1% of the country's total housing and the demand for alternative accommodation led to an estimated 1%-3% rise in house prices across the country, but pressures have since largely abated.

After strong growth of 8.9% in 2022 and 4.1% in 2023, we forecast real GDP to decelerate sharply to 0.1% in 2024. This is due to a slowdown in fishing marine products, and tourism (which was impacted by the volcanic eruptions), as well as due to the effect of high interest rates on consumer demand. Inflation continues to fall, reducing to 5.1% in October 2024, from 5.4% in September. Housing and fuel were the highest subcomponents of inflation in October. Overall, we forecast inflation will fall to 6.0% in 2024 from 8.7% in 2023. Broad fiscal consolidation continues, and net general government debt will fall and reach 41% of GDP by 2027, down from 46% of GDP at the end of 2023.

Outlook

The stable outlook reflects our view that, beyond a temporary slowdown in 2024, Iceland's economy will continue to expand over the next two years, while recording modest fiscal and external deficits. It also reflects our assumption that volcanic activity will not have a significant sustained adverse effect on the country's economic, fiscal, and balance-of-payments performance.

Downside scenario

We could lower the rating if Iceland's fiscal or balance-of-payments performance worsened significantly against our forecasts. This could happen, for example, if persistently disruptive volcanic activity hampered the country's tourism sector, with repercussions affecting growth and fiscal prospects.

Upside scenario

We could raise the rating if Iceland's public finances strengthened significantly more than we currently anticipate, either via narrower deficits and lower net government debt, or a decrease in the government's contingent liabilities. We could also raise the rating if we took the view that increasing economic diversification made the economy more resilient to external shocks.

Rationale

Institutional and economic profile: Iceland's medium-term growth prospects remain strong, assuming there is no lasting disruption from volcanic activity

Snap general elections will be held on Nov. 30, 2024, almost a year before the next scheduled elections were to be held in September 2025. The previous three-party coalition comprised the center-right IP, the centrist Progressive Party (PP), and the center-left Left Green Movement (LGM), but policy differences and infighting ultimately led to the collapse of the coalition, and in mid-October, the coalition was disbanded, with a caretaker government, consisting of the IP and PP parties, remaining until the elections in November. Earlier, in April, the then-prime minister, Katrin Jakobsdottir, of the LGM party stepped down to contest the presidential elections, leading to Bjarni Benediktsson of the IP taking over as prime minister. Ms. Jakobsdottir eventually lost the presidential elections to businesswoman, Halla Tomasdottir in June 2024. In the run-up to the parliamentary elections, the center-left Social Democratic Alliance (SDA) is currently polling well. The caretaker government has tabled the draft 2025 budget with the hope that it will be passed it before the elections. Despite policy differences over green issues, energy, and immigration, we expect broad policy continuity and fiscal consolidation to continue after the elections later this month.

Following a strong recovery from the pandemic in recent years, we forecast real GDP growth to fall sharply to 0.1% in 2024, with GDP having contracted by 1.9% in the first half of the year, driven by foreign trade, including a fall in marine exports and weaker tourism performance. The former is primarily tied to the lack of a capelin fish catch, as capelin stock level issues prompted the Marine and Freshwater Research Institute of Iceland (MFRI) to recommend that capelin not be fished in the 2023/24 season. Meanwhile, the decline in tourism was partly related to the recent seismic activity on the Reykjanes peninsula in southwestern Iceland.

Volcanic eruptions from November 2023 to March 2024 impacted the residents of the town of Grindavík, as well as Iceland's broader tourism sector. One of Iceland's most popular tourist spots, the Blue Lagoon geothermal resort, was forced to close for several weeks. After a lull it seismic activity from April, activity intensified again in August 2024, albeit slightly farther away from Grindavík, but then subsided again. If a much larger eruption were to ensue, it could pose significant risks, especially if Keflavik Airport--the country's main international airport, which is also on the Reykjanes peninsula--were affected. The initial eruption site is about 19 kilometers from Keflavik Airport, but so far there have been no significant flight disruptions. Seismologists note that if the lava flow were to reach the sea, it would likely form ash clouds that could begin to disrupt flights. This happened after the 2010 eruption of Eyjafjallajökull volcano, which interrupted European airspace for several weeks.

In 2025, we forecast a rebound, with real GDP growth strengthening to 2.4%, supported by private consumption and exports, and then averaging 2.2% over 2026-2027. Collective wage deals agreed with unions across the private sector in early 2024, averaging about 4% per year, is broadly in line with inflation and should support domestic demand. Iceland has one of the highest union member rates globally and two-thirds of private sector workers were party to the collective wage agreement. We expect the unemployment to increase slightly to 3.8% this year after recording 3.4% in 2023--the lowest level since 2018--while economic growth will moderate and average 3.9% in 2024-2028.

Prior to the impact of the recent volcanic eruptions, Iceland's tourism sector staged a strong recovery after taking a large hit during the pandemic. Foreign passenger arrivals exceeded 2.2 million in 2023, marking a more than 30% increase over 2022 and surpassing pre-pandemic numbers, and are now more than 10 times higher than at the turn of the century. We expect tourism will continue to grow, albeit at a slower pace, partly reflecting capacity constraints and cost factors.

Iceland's economy has not been significantly affected by the recent fluctuations in global energy prices. This is because Iceland produces virtually all its electricity from renewable sources (70% from hydropower and 30% from geothermal plants), while heating is almost totally provided by geothermal energy. Imported petroleum products, largely for transport and vessels, only constitutes about 10%-15% of the energy mix, and the country is making strides toward transitioning to electric vehicles. Nevertheless, new hydropower projects face environmental-related hurdles, while electricity shortages--due to low water levels in reservoirs that feed hydro plants--alongside volcanic activity, have forced some geothermal plants and aluminum smelters to reduce output.

Another factor that we expect should continue to support Iceland's economic development over the next few years is a favorable demographic growth profile compared with European peers, reflecting high birth rates. This, coupled with net inward migration, has increased the population by almost 20% over the past decade. Even with slightly lower population growth rates projected, we still expect this will contribute to economic growth. Iceland has also witnessed high productivity growth when compared with European peers. Part of this is due to the emergence of new higher technology sectors, including biotechnology, onshore and offshore fish farming, information technology, and business services, which complement more traditional sectors such as marine products, tourism, and aluminum smelting.

Nevertheless, Iceland fundamentally remains a small and open economy, with a population of less than 400,000, and an estimated GDP of about $34 billion in 2024, and hence is vulnerable to shocks and global headwinds. Despite growth in new economic sectors, Iceland's export base remains concentrated in marine products, processed aluminum, and tourism. These three sectors represent nearly 70% of total goods and services exports. In our view, the country therefore remains susceptible to external shocks and shifts in trade.

We consider Iceland's institutional arrangements a rating strength, with functioning checks and balances between various government bodies. The country's swift and effective response to shocks, such as to the pandemic and the volcanic eruption on Reykjanes, underpins our view of generally effective and stable policymaking. The outgoing governing coalition progressed with a broad consensus-oriented approach to policymaking. It focused on economic and social reforms, in particular shielding vulnerable people from recent high inflation, as well as on tackling environmental threats. Iceland's glaciers have shrunk rapidly in recent years, and the effects of climate change are high on the political priorities. The government aims to make the country carbon neutral by 2040. The new government's plans are likely to include efforts to accelerate progress toward carbon neutrality, boost sustainable economic growth, and contain inflation's impact on the more vulnerable parts of the economy.

While not a member of the EU, Iceland is a member of the European Free Trade Association (EFTA) and the European Economic Area (EEA), and will continue to work with European countries on many issues, including economic issues and security. Despite having no armed forces, Iceland was a founding member of NATO and remains strategically important, both as a key refueling station as well as due to its proximity to the Arctic and northern Russia. Iceland is aligned alongside the EU and has imposed sanctions on Russia following its invasion of Ukraine.

Given Donald Trump's victory in the U.S. presidential elections, Iceland, alongside other NATO members may come under pressure to spend more on defense and security, while tariffs on exports to the U.S., including aluminum tariffs, could rise.

Flexibility and performance profile: Monetary policy loosening has begun amid elevated, albeit falling, inflation, while the government maintains focus on medium-term fiscal consolidation

Iceland's strong economic growth in recent years has supported fiscal consolidation efforts, and the government has tightened the overall fiscal stance, thereby also supporting efforts to control inflation. This has been particularly visible in revenue, which rose strongly in 2022 and 2023. The revenue increase outpaced spending pressures, including higher interest costs originating from Iceland's large amount of inflation-linked debt. Thereby, the government managed to achieve a high degree of fiscal consolidation within a relatively short period (especially given that deficits in 2020 and 2021 averaged about 8% of GDP). The general government deficit fell to 1.4% of GDP in 2023, but we forecast it will temporarily widen to 2.5% of GDP in 2024, due to the impact of about 1.1% of GDP of support for the town of Grindavík related to the volcanic eruptions. We forecast fiscal consolidation to continue from 2025, with the deficit averaging 1.1% over 2025-2027 and falling to 0.7% of GDP in 2027.

Iceland's public finances have benefited from the partial sale of the government's stake in Íslandsbanki. The authorities' plan for further sales of the current 42.5% share should provide around ISK108 billion, with two share sales planned in 2025. We estimate the sale will have a combined positive effect of about 2% of GDP on Iceland's net general government debt, at its current market capitalization.

In our base-case scenario, we expect Iceland's net general government debt will continue declining as a percentage of GDP. The country had already deleveraged extensively until 2019, when net general government debt had declined to 37% of GDP from a peak of nearly 80% in 2011. Following the pandemic-led increase in debt in 2020 and 2021, we now expect net general government debt will reach a still-moderate 41% of GDP by 2027.

Iceland's debt profile has also improved significantly over the past decade. More than 80% of gross government debt is now held domestically and only about 15% is denominated in foreign currency. In line with previous policies, the authorities have placed much of the proceeds of foreign currency debt issuance in deposits at the central bank, thereby bolstering foreign exchange reserves. The government successfully covered its large budget deficits in 2020 and 2021 predominantly by issuing debt on the domestic market under then-favorable conditions. In March 2024, the government issued its first €750 million green bond in the international markets, and further international bond placements remain an option. In June, Iceland also issued a €50 million "gender bond" with a 3.4% coupon, the first gender bond globally issued by a sovereign, which is to be used as a funding source for promoting gender equality.

We continue to exclude the HF Fund's liabilities, as well as gross and net income, from our general government data. This is because we continue to classify the HF Fund as a contingent liability, despite its relatively recent inclusion in government debt data, as reported by Iceland's national statistical office. The HF Fund's predecessor, the HFF, previously provided affordable housing loans in Iceland. The government plans to wind down the HF Fund following changes to government policy. To do this, it would have to reach an agreement with the holders of HF Fund bonds, which largely consist of Icelandic pension funds, and discussions are ongoing. The HF Fund's balance sheet represented about 14% of GDP at year-end 2023 and the government provides a guarantee for the HF Fund's debt.

As in other countries, inflation has remained elevated in Iceland over the past two years and stood at 8.7% in 2023. The contribution of imputed rents--primarily reflecting rising house prices--to headline inflation has been volatile. It was initially the main driver of inflation, but then price increases became broad based, with food, transportation, imported goods, and wage increases becoming more important factors. More recently, the contribution of imputed rents to overall inflation has reemerged, while wider inflationary pressures are easing. Energy prices have not affected headline inflation in Iceland as much as in other parts of Europe, reflecting the country's lower energy imports. Iceland's inflation rate has now significantly exceeded the central bank's target of 2.5% for over four years, but inflation has begun to ease. In the first 10 months of 2024 it averaged 6% and fell to 5.1% in October 2024 from 5.4% in September. In recognition of the falling inflation and slowing economy, the monetary policy committee of the central bank in October cut the key policy rate by 0.25 percentage points to 9.0% from 9.25%. We expect easing to continue, but inflation will likely only fall toward the central bank's 2.5% target by 2026 at the earliest.

Iceland has accumulated net foreign exchange reserves in recent years on the back of the tourism sector's strong performance, as well as government bond placements. The Central Bank of Iceland's international reserves stand at about $6.4 billion, currently equivalent to 19% of GDP. In our view, this continues to provide the central bank with policy headroom. Fundamentally, however, we still view Iceland's monetary policy effectiveness as constrained. The underlying economy represents one of the smallest currency areas globally and, historically, domestic inflation has been heavily influenced by developments abroad. The country's real effective exchange rate also tends to fluctuate over the economic cycle and could be subject to large valuation swings, exacerbating the cyclicality inherent in the economy.

Iceland's current account moved into a surplus position in 2023, following two years of small deficits, partly as a result of robust tourism performance. However, in the first half of 2024, the current account reverted to a deficit, posting a deficit of ISK77 billion (3.6% of GDP). The surplus on services fell, while the deficit on goods widened when compared with the same period in 2023. Nevertheless, we expect the services receipts to strengthen in the second half of the year, given that peak tourist arrivals are typically in the third quarter. Overall, we expect the current account to post a small deficit of 0.6% of GDP for 2024, and average small deficits of 0.4% of GDP between 2025-2027. We project Iceland's net external asset position to average 51% of current account receipts over the next few years. Iceland has been in a net external asset position since 2016.

We anticipate Icelandic banks will continue to post strong profitability, aided by robust credit growth and high internal efficiency. Although we expect that net interest margins have already peaked, banks will continue to generate net interest income sufficient to offset lingering inflationary cost pressures and including cost of risk in tandem with slowing economic activity. We expect banks' capitalization will remain robust over the next two years, notwithstanding potential excess capital distribution, given their ample margins to regulatory capital requirements.

Iceland--Selected Indicators

	2018	2019	2020	2021	2022	2023	2024bc	2025bc	2026bc	2027bc
Economic indicators (%)										
Nominal GDP (bil. ISK)	2,844.1	3,026.1	2,929.2	3,279.5	3,892.0	4,321.1	4,576.3	4,850.1	5,085.7	5,322.3
Nominal GDP (bil. $)	26.3	24.7	21.6	25.8	28.8	31.3	33.4	35.6	37.8	39.4
GDP per capita (000s $)	75.2	69.7	60.4	70.8	76.7	81.6	85.3	89.7	93.7	96.3

Iceland--Selected Indicators										
Real GDP growth	4.9	1.9	(6.9)	5.3	9.0	5.0	0.1	2.4	2.3	2.1
Real GDP per capita growth	2.7	0.6	(8.1)	3.4	6.0	2.7	(1.9)	0.9	0.8	0.6
Real investment growth	2.3	(4.1)	(7.4)	14.3	15.7	1.6	0.8	3.0	3.1	2.6
Investment/GDP	22.1	20.7	21.3	23.0	24.4	24.9	25.0	25.1	25.3	25.4
Savings/GDP	26.4	27.2	22.4	20.3	22.3	26.0	24.4	24.7	24.9	24.9
Exports/GDP	46.1	43.7	33.3	37.3	45.7	43.6	42.5	42.3	42.6	43.0
Real exports growth	0.4	(5.4)	(30.7)	14.8	22.1	6.3	0.6	3.0	3.0	3.0
Unemployment rate	3.1	3.9	6.4	6.0	3.7	3.4	3.8	3.7	4.0	4.0
External indicators (%)										
Current account balance/GDP	4.3	6.6	1.1	(2.6)	(2.1)	1.2	(0.6)	(0.4)	(0.4)	(0.5)
Current account balance/CARs	8.5	13.5	2.9	(6.4)	(4.2)	2.4	(1.4)	(0.9)	(0.9)	(1.0)
CARs/GDP	50.4	48.5	37.7	41.1	49.1	48.1	46.0	45.7	45.8	46.1
Trade balance/GDP	(5.5)	(3.4)	(2.7)	(4.1)	(5.2)	(6.7)	(6.8)	(6.7)	(6.7)	(6.8)
Net FDI/GDP	(1.8)	(2.9)	(2.3)	2.0	3.8	1.3	0.5	0.5	0.5	0.5
Net portfolio equity inflow/GDP	(2.0)	(1.0)	(4.0)	(4.6)	(3.1)	(3.8)	(2.5)	(2.5)	(2.5)	(2.5)
Gross external financing needs/CARs plus usable reserves	83.4	80.1	80.2	90.6	92.6	96.0	101.1	93.7	96.9	95.2
Narrow net external debt/CARs	41.7	39.4	68.7	61.6	50.7	49.1	51.6	51.7	51.2	51.3
Narrow net external debt/CAPs	45.6	45.6	70.7	57.9	48.6	50.3	51.0	51.2	50.8	50.8
Net external liabilities/CARs	(18.8)	(43.6)	(97.4)	(107.6)	(48.2)	(77.4)	(79.2)	(78.1)	(77.4)	(77.8)
Net external liabilities/CAPs	(20.5)	(50.4)	(100.3)	(101.2)	(46.2)	(79.3)	(78.2)	(77.4)	(76.7)	(77.0)
Short-term external debt by remaining maturity/CARs	33.2	36.0	49.7	39.1	34.8	35.9	37.9	28.5	31.0	27.4
Usable reserves/CAPs (months)	6.5	7.3	10.3	6.8	5.8	4.8	4.5	4.5	4.3	4.2
Usable reserves (Mil. $)	6,327.9	6,787.2	6,420.8	7,079.6	5,893.3	5,800.6	6,197.6	6,247.3	6,346.8	6,446.2
Fiscal indicators (general government %)										
Balance/GDP	1.1	(1.4)	(8.2)	(7.6)	(3.1)	(1.4)	(2.5)	(1.4)	(1.1)	(0.7)
Change in net debt/GDP	(4.3)	8.1	6.9	7.3	7.9	2.3	2.5	0.6	0.1	0.8
Primary balance/GDP	3.5	0.7	(6.2)	(5.7)	0.4	1.8	0.7	1.1	1.2	1.5
Revenue/GDP	42.9	40.5	41.4	40.3	41.7	42.7	42.0	41.0	41.0	41.0
Expenditures/GDP	41.9	41.9	49.7	48.0	44.8	44.1	44.5	42.4	42.1	41.7
Interest/revenues	5.8	5.4	5.0	4.9	8.4	7.3	7.6	6.2	5.6	5.3
Debt/GDP	39.3	46.3	60.3	62.0	58.7	54.7	53.7	50.8	48.5	47.1
Debt/revenues	91.6	114.4	145.5	153.7	141.0	127.9	127.8	123.8	118.3	114.9
Net debt/GDP	30.8	37.0	45.1	47.6	48.0	45.5	45.5	43.5	41.6	40.5
Liquid assets/GDP	8.5	9.3	15.2	14.4	10.7	9.2	8.2	7.2	6.9	6.6
Monetary indicators (%)										
CPI growth	2.7	3.0	2.8	4.4	8.3	8.7	6.0	3.5	2.6	2.5
GDP deflator growth	2.6	4.5	4.0	6.4	8.9	5.7	5.8	3.5	2.5	2.5
Exchange rate, year-end (ISK/$)	116.3	121.1	127.2	130.4	142.0	136.2	138.0	134.3	134.9	135.3

Iceland--Selected Indicators

Banks' claims on resident non-gov't sector growth	9.0	4.1	4.7	(7.4)	11.5	6.6	5.0	5.0	5.0	5.0
Banks' claims on resident non-gov't sector/GDP	131.3	128.5	139.0	115.0	108.1	103.7	102.9	101.9	102.0	102.4
Foreign currency share of claims by banks on residents	12.3	12.8	13.3	14.1	13.7	11.5	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	12.2	12.3	10.8	11.2	11.4	11.0	N/A	N/A	N/A	N/A
Real effective exchange rate growth	(2.6)	(7.0)	(8.1)	4.0	2.9	2.6	N/A	N/A	N/A	N/A

Sources: Statistics Iceland (Economic Indicators), Central Bank of Iceland, The Government of Iceland External Indicators), Statistics Iceland, Central Bank of Iceland (Fiscal Indicators), and Central Bank of Iceland, IMF (Monetary Indicators).

Adjustments: Government debt adjusted by including loans from Norges Bank and the IMF. Government fiscal metrics exclude the Icelandic Housing Financing Fund. External metrics exclude debt from previous DMBs in settlement proceedings.

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A- Not applicable. ISK--Icelandic krona. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Iceland--Rating Component Scores

Key rating factors	Score	Explanation
Institutional assessment	2	Generally strong, but relatively shorter track record of policies that deliver sustainable public finances and consistently balanced economic growth over the long term. Generally effective checks and balances and free flow of information through society. Statistical information is generally timely and reliable.
Economic assessment	2	Based on GDP per capita ($) as per the Selected Indicators table above. The economy is concentrated in tourism, fishing, and aluminum. Metal and fishing sectors each represent 20% and tourism generally over one-third of the export base. We estimate revenues from tourism at close to 20% from GDP; these could be volatile in case of adverse economic developments in Iceland’s main trading partners, a more pronounced shift in global travel preferences, or in case of a natural disaster.
External assessment	3	Selected Indicators in Table 1. Iceland's net international investment position is more favorable than the narrow net external debt position by over 100% of current accounts receipts (CARs), as per Selected Indicators in Table 1. The country is exposed to significant volatility in terms of trade, due to its dependence on tourism exports and changes in metal prices.
Fiscal assessment: flexibility and performance	2	Based on change in net general government debt (% of GDP) as per Selected Indicators in Table 1.
Fiscal assessment: debt burden	4	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue) as per Selected Indicators in Table 1. Contingent liabilities are moderate, as defined by our criteria. We assess the amount of guarantees provided by Iceland (implicitly and explicitly) to various non deposit-taking institutions at close to 20% of GDP.
Monetary assessment	4	The krona is largely floating following the removal of capital controls in 2017, albeit with a short track record. The central bank has broad operational independence and uses market-based monetary instruments. Given the removal of capital controls and accumulation of extra net foreign exchange

Iceland--Rating Component Scores

Key rating factors	Score	Explanation
		reserves, the central bank can act as lender of last resort for the financial system. However, Iceland exhibits a volatile real effective exchange rate over the economic cycle.
Indicative rating	a+	As per Table 1 of "Sovereign Rating Methodology
Notches of supplemental adjustments and flexibility		None applied.
Final rating		
Foreign currency	A+	
Notches of uplift		Default risks do not apply differently to foreign- and local-currency debt
Local currency	A+	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Global Sovereign Rating Trends Third-Quarter 2024, Oct. 21, 2024
- Sovereign Ratings List, Oct. 9, 2024
- Sovereign Ratings History, Oct. 9, 2024
- Sovereign Ratings Score Snapshot, Oct. 8, 2024
- Sovereign Risk Indicators, Oct. 7, 2024. Interactive version available at http://www.spratings.com/sri
- Default, Transition, and Recovery: 2023 Annual Global Sovereign Default And Rating Transition Study, March 27, 2024
- Iceland Ratings Raised To 'A+ ' On Strong Growth and Fiscal Consolidation; Outlook Stable, Nov. 10, 2023
- Banking Industry Country Risk Assessment: Iceland, March 24, 2023

Ratings Detail (as of November 11, 2024)*		
Iceland		
Sovereign Credit Rating		A+/Stable/A-1
Transfer & Convertibility Assessment		AA-
Senior Unsecured		A+
Senior Unsecured		A-1
Short-Term Debt		A-1
Sovereign Credit Ratings History		
10-Nov-2023	*Foreign Currency*	A+/Stable/A-1
12-May-2023		A/Positive/A-1
17-Mar-2017		A/Stable/A-1
10-Nov-2023	*Local Currency*	A+/Stable/A-1
12-May-2023		A/Positive/A-1
17-Mar-2017		A/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.