Research Update:

Iceland 'A+/A-1' Ratings Affirmed; Outlook Stable

March 7, 2025

Overview

- Snap elections at the end of November 2024 resulted in the center-left Social Democratic Alliance winning the largest number of seats and forming a governing coalition with two other parties. We expect broad policy continuity under the new government, with fiscal consolidation likely to continue.
- Real GDP expanded by a timid 0.5% in 2024, but growth should rebound to average 2.3% growth per year in 2025-2028. Iceland will have to navigate possible tariffs and other pressures stemming from a more volatile global geopolitical landscape.
- We forecast Iceland's net general government debt (net of liquid assets) will steadily decrease to 39% of GDP by 2028, in line with the government's commitment to fiscal consolidation.
- We affirmed our 'A+/A-1' sovereign credit ratings on Iceland. The outlook is stable.

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Rating Action

On March 7, 2025, S&P Global Ratings affirmed its 'A+/A-1' long- and short-term foreign and local currency sovereign credit ratings on Iceland. The outlook is stable.

Outlook

The stable outlook reflects our view that, beyond the temporary slowdown in 2024, Iceland's growth will rebound over the next few years while fiscal and external deficits will remain contained. The outlook also reflects our assumption that neither volcanic activity nor global trade tensions will have a significant sustained adverse effect on the country's economic, fiscal, and balance-of-payments performance. Iceland's key aluminium exports are mostly sold to European markets, particularly the Netherlands and Germany, mitigating current direct tariff-related risks.

Upside scenario

We could raise the ratings if Iceland's public finances strengthened significantly more than we anticipate. We could also raise the ratings if we took the view that increasing diversification made the economy more resilient to external shocks while current global trade tensions eased without a sustained negative economic impact.

Downside scenario

We could lower the ratings if Iceland's fiscal or balance-of-payments performance proved materially weaker than our baseline forecasts. This could happen, for example, if persistently disruptive volcanic activity hampered the country's tourism sector and growth performance; or Iceland was more significantly affected by global trade tensions or forced to sharply increase defense-related expenditure.

Rationale

Iceland held snap elections on Nov. 30, 2024, following the collapse of the previous three-party coalition in October, and the center-left Social Democratic Alliance (SDA) won the largest number of seats and formed a coalition with the Vidreisn (center-right Reform Party) and the center-left Peoples Party. We expect broad policy continuity, with fiscal consolidation likely to continue. The new government's agenda focuses largely on economic growth, job creation, energy, and immigration policy, while maintaining prudent public finances and environmental protection. Given a more complicated global geopolitical landscape, it also plans to reopen a national debate about whether Iceland should join the EU.

After strong growth of 9.0% in 2022 and 5.6% in 2023, real GDP rose marginally by 0.5% in 2024. The contraction was due to a slowdown in fishing and marine product exports (due to the lack of a capelin catch), tourism (which was affected by volcanic eruptions but then rebounded sharply to have a good year overall), and the effect of high interest rates on consumer demand. Nevertheless, we forecast real GDP growth to rebound in 2025-2028 and average 2.3% a year. Inflation continued to fall, to 4.6% in January and 4.2% in February 2025, after averaging 5.9% in 2024 and 8.7% in 2023, which should start supporting consumer demand. Broad fiscal consolidation continues, and net general government debt will continue to fall slowly, to 39% of GDP by 2028 from 45% at the end of 2024.

Our ratings on Iceland reflect the country's very high GDP per capita and strong growth track record, which has been higher than most sovereigns we rate in Western Europe, as well as its robust institutional framework and sound economic and fiscal policies. The ratings remain constrained by the volatile nature of Iceland's small, open economy, which is vulnerable to natural events, including volcanic activity, as well as adverse external developments outside of its control, such as geopolitical risks, trade and tariff tensions, and fluctuating terms-of-trade. The small size of Iceland's economy also somewhat limits economic and monetary policy effectiveness, due to the influence of external factors largely outside the country's control.

Institutional and economic profile: Iceland's medium-term growth prospects remain strong, assuming no lasting disruption from volcanic activity or global trade and geopolitical challenges

- We anticipate that the new government will pursue broad continuity of the country's longstanding prudent economic, fiscal, and social policies, as well as environmental protection. Nevertheless, a more difficult global geopolitical environment and international tariffs could pose issues.
- We forecast that real GDP growth will rebound in 2025, averaging 2.3% in 2025-2028.

- Alongside tourism and other exports, domestic demand will support growth from 2025 onward, partly due to a growing population, a comprehensive union-led wage agreement, and the expansion of knowledge-based and new economic sectors such as biotechnology and sea- and land-based fish farming.

Following a strong recovery from the pandemic, real GDP slowed to 0.5% in 2024, owing to a fall in marine exports and weaker tourism at the start of the year. The former is primarily tied to the lack of a capelin fish catch, as capelin stock level concerns prompted the Marine and Freshwater Research Institute of Iceland to recommend that capelin not be fished in the 2023-2024 season. The decline in tourism related partly to volcanic activity on the Reykjanes peninsula in southwestern Iceland. In 2025, we forecast a rebound, with growth strengthening to 2.0%, supported by private consumption and exports, then averaging 2.4% over 2026-2028. Collective wage deals agreed with unions across the private sector in early 2024, averaging about 4% per year, are broadly in line with inflation and should help support domestic demand. Iceland has one of the highest union member rates globally: Two-thirds of private sector workers were party to the collective wage agreement. We estimate unemployment to have increased slightly to 3.8% in 2024 after recording 3.4% in 2023--the lowest since 2018.

In late 2023 and throughout 2024, volcanic activity on the Reykjanes peninsula affected tourism and forced the evacuation of the town of Grindavik. The 3,700 residents were evacuated in November 2023, just before a series of seismic lava leaks and eruptions that threatened to engulf the town. To support residents through the period, the government and banks created a special purpose financial vehicle (SPV) that allowed residents to sell their houses for 95% of the insured value. Total support for the residents is estimated to have cost the government about Icelandic krona (ISK) 82 billion. The housing stock in Grindavik amounts to about 1% of the country's total housing and the demand for alternative accommodation led to an estimated 1%-3% rise in housing prices across the country, but pressures have since largely abated. The peninsula also hosts the country's largest airport, Keflavik, but so far flights have been largely unaffected. The Blue Lagoon, a very popular tourist resort and geothermal bath, was forced to shut on several occasions due to lava flow reaching the complex, but subsequently reopened. Several vulcanologists are forecasting that lava and seismic activity in 2025 is likely to calm, and the Icelandic Tourist Board is expecting a strong tourist season for the year. Despite the recent seismic activity, studies undertaken have shown that Iceland is not necessarily more significantly prone to climatic events than other countries. The EU's Inform Climate Change Risk Index points to low historical losses from climate-related events in Iceland.

Before the 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, a more than 30% increase over 2022, and rose to 2.3 million in 2024. Tourist numbers are now more than 10x higher than in 2000, but still lower than the 2018's peak of 2.4 million. We expect tourism will continue to grow in 2025-2028, albeit more slowly, partly reflecting capacity constraints and cost factors.

Iceland continues to benefit from its endowment of renewable energy sources, which has shielded the economy from fluctuations in global energy prices. This is because the country produces most of its electricity from renewable sources (about 70% from hydropower and 30% from geothermal plants), while geothermal energy provides almost all heating. Imported petroleum products, largely for transport and vessels, only constitutes 10%-15% of the energy mix, and the country is making strides toward transitioning to electric vehicles. Nevertheless, hydropower projects face environmental-related hurdles, while electricity shortages--due to low water levels in reservoirs that feed hydro plants--and volcanic activity forced aluminium smelters to reduce output for a few months in 2024.

Iceland also benefits from a favorable demographic profile compared with European peers. High birth rates and net inward migration have increased the population almost 20% over the past decade. In addition, Iceland has witnessed the emergence of higher technology sectors, including biotechnology such as biosimilars, onshore and offshore fish farming, IT, data storage, and business services, which complement more traditional sectors such as marine products, tourism, and aluminium smelting.

Despite these strengths, in our view, Iceland fundamentally remains a small and open economy, with a population of less than 400,000, and an estimated GDP of about $36 billion in 2025, so it is vulnerable to shocks and global stresses outside of its control. Iceland's export base remains concentrated in marine products, processed aluminium, and tourism. These sectors represent nearly 70% of total goods and services exports.

We consider Iceland's institutional arrangements a rating strength, with functioning checks and balances between government bodies. The country's swift and effective response to recent shocks, such as the pandemic and volcanic eruption, underpins our view of generally effective and stable policymaking.

Nevertheless, with a new U.S. administration, Iceland, alongside its European partners, will have to navigate U.S. tariffs on EU and possibly Icelandic goods, as well as other policies, including pressures on NATO countries to raise defense-related expenditure. Iceland is a founding member of NATO, and NATO alliance countries are under pressure from the U.S. to raise defense-related expenditure to at least 2% of GDP per year. Iceland is the only member of NATO that does not have a standing army, so it might be able avoid such pressures, although this is not certain. The country's location remains strategically important, due to its proximity to the Arctic region, especially in an era when melting ice could create newfound shipping routes. The U.S. Naval Air Station in Keflavik, now operated by Icelandic authorities, is being expanded.

The U.S. has also imposed tariffs on steel and aluminium entering the U.S., which come into effect on March 12, alongside tariffs on Canada, Mexico, and China. The administration is also considering tariffs on imports into the U.S. from the EU on a wide range of goods. Iceland's sizable aluminium exports, which account for about one-third of the country's total exports, are largely exported to the EU, with only a small percentage exported to the U.S., and are produced using low-cost renewable energy, which should limit the adverse effects. However, knock-on effects or possible reciprocal tariffs and tariffs on other goods and services might have an impact.

The U.S.'s interest in expanding ties with Greenland could provide either an opportunity, or possibly a risk, for Iceland, given Iceland's proximity to Eastern Greenland, and will be a challenge for the government to navigate smoothly. The part Icelandic-owned mining firm, Amaroq, is already an active player in Greenland.

The Icelandic election campaign in November also revived discussions around whether Iceland should consider joining the EU and the government has pledged a countrywide referendum by 2027 on beginning discussions with the EU. 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 by joining the EU Iceland will likely have to adhere to the EU common fishing policy, which has been a contentious topic.

Flexibility and performance profile: Fiscal and balance-of-payments positions are strong, but monetary policy effectiveness is more limited

- Iceland's inflation fell to 5.9% in 2024 from 8.7% in 2023, and the central bank continued its rate cutting in February 2025, reducing the key rate by another 0.5% to 8.0%.

- We expect Iceland's general government deficit will average 1% of GDP in 2025-2028, underpinning a reduction in net general government debt to 39% of GDP by 2028.
- We forecast modest current account deficits and expect Iceland will remain in a net external creditor position through to 2028.

Notwithstanding the challenging global backdrop, we expect broad domestic economic and fiscal policy continuity under the new government formed after the November 2024 election. The pre-election parliament passed the 2025 budget, and although the new government is likely to seek to pass a supplementary budget, we expect fiscal consolidation to continue through 2028.

Since the pandemic's impact on fiscal metrics in 2020 and 2021, Icelandic authorities oversaw substantial fiscal consolidation within a relatively short period. We estimate the general government deficit measured 1.8% of GDP in 2024 compared with average deficits of 8% of GDP over 2020-2021, at the height of the pandemic. We forecast average deficits of 1% of GDP over the next four years, with the government planning to lower expenditure levels as a percentage of GDP and introduce a new expenditure-related stability rule. Iceland's public finances have benefited from the partial sale of the government's stake in Islandsbanki. The plan for further sales of the current 42.5% share in the bank in 2025 could provide about ISK100 billion. Under our base-case scenario, we expect overall net general government debt will continue declining to 39% of GDP by 2028.

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, authorities have placed much of the proceeds of foreign currency debt issuance in deposits at the central bank, bolstering foreign exchange reserves. The government 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 market, and further international bond placements are an option. In June 2024, Iceland issued a €50 million "gender bond" with a 3.4% coupon, the first gender bond globally issued by a sovereign, the proceeds of which will promote gender equality.

We continue to exclude the HF Fund's liabilities, as well as gross and net income, from our general government data. We classify the HF Fund as a contingent liability, despite its inclusion in government debt data, as reported by Iceland's national statistical office. The HF Fund's predecessor provided affordable housing loans in the country. The government plans to wind down the fund following changes to government policy. To do this, it would have to reach an agreement with holders of HF Fund bonds, which largely consist of Icelandic pension funds. The HF Fund's balance sheet represented about 14% of GDP at year-end 2024 and the government provides a guarantee for the HF Fund's debt. We understand negotiations continue and could be resolved in 2025.

Inflation fell to 5.9% in 2024 from 8.7% in 2023, and fell further to 4.2% in February 2025, but remains above the central bank's target of 2.5%, which the bank expects to reach by mid-2026. Being largely energy-independent, the majority of inflation in Iceland comes from housing market effects and the robust purchasing power of the Icelandic population. Since October 2024, the central bank has made cuts of 125 basis points (bps) with the most recent move being a 50 bps cut to 8.0% in February 2025. We expect monetary policy easing to continue until inflation reaches close to its target.

Iceland has continued to accumulate net foreign exchange reserves in recent years. The central bank's international reserves grew by over 10% year on year to $6.7 billion, or over four months of current account payments. In our view, this continues to provide the central bank with policy headroom. Fundamentally, however, we view Iceland's monetary policy as constrained because the underlying economy represents one of the smallest currency areas globally and domestic inflation has historically been heavily influenced by developments abroad. The country's real effective exchange rate also tends to fluctuate over the economic cycle and can be subject to valuation swings, exacerbating the cyclicality inherent in the economy.

Iceland's current account moved into a surplus in 2023 following two years of small deficits, partly because of the robust tourism performance. However, we estimate that for 2024, the current account reverted to a deficit of 1.4% of GDP, and we forecast the current account to remain in a small deficit averaging 1.6% in 2025-2028. We project Iceland's net external asset position to average about 60% of current account receipts over the next few years. The country has been in a net external asset position since 2016.

We anticipate Icelandic banks' profitability will remain sound but edge down with moderating margins and cost inflation, including normalizing cost of risk. Nevertheless, we forecast growing lending volumes and strong fee and commission income, alongside market-leading operating efficiency, will partly ease pressure on revenue. At the same time, incumbent banks' capitalization should remain robust, with ample margins above regulatory capital requirements despite ongoing capital optimization efforts and inorganic growth. We expect the ongoing privatization of Islandsbanki will proceed, with the government divesting its remaining shares over 2025. Arion Bank's announcement in February 2025, that it sought to initiate merger talks with Islandsbanki, was rejected by Islandsbanki's board. Given the oligopolistic market structure in Iceland, we consider a consolidation among incumbent banks unlikely.

Key Statistics

Table 1

Iceland--Selected indicators

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Economic indicators (%)										
Nominal GDP (bil. LC)	3,026	2,929	3,273	3,882	4,339	4,616	4,878	5,130	5,385	5,646
Nominal GDP (bil. $)	25	22	26	29	31	33	36	38	40	42
GDP per capita (000s $)	69.7	60.4	70.6	76.5	82.0	85.5	89.7	93.6	96.0	98.5
Real GDP growth	1.9	(6.9)	5.0	9.0	5.6	0.5	2.0	2.5	2.4	2.3
Real GDP per capita growth	0.5	(8.0)	3.1	6.0	3.3	(1.5)	0.0	0.5	0.4	0.3
Real investment growth	(4.1)	(7.4)	14.3	16.1	4.3	7.5	2.5	1.5	2.0	1.7
Investment/GDP	20.7	21.3	23.0	24.5	25.5	26.6	26.7	26.3	26.2	26.0
Savings/GDP	27.2	22.4	20.4	22.4	26.6	25.1	25.1	25.4	25.6	25.8
Exports/GDP	43.7	33.3	37.4	45.8	43.4	41.6	41.3	42.4	43.0	43.8
Real exports growth	(5.3)	(30.7)	14.8	22.1	6.3	(1.2)	2.2	5.0	4.0	4.0
Unemployment rate	3.9	6.4	6.0	3.7	3.4	3.8	3.7	4.0	4.0	4.0

Table 1

Iceland--Selected indicators (cont.)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
External indicators (%)										
Current account balance/GDP	6.5	1.1	(2.6)	(2.1)	1.1	(1.4)	(1.6)	(0.9)	(0.6)	(0.2)
Current account balance/CARs	13.5	2.9	(6.4)	(4.2)	2.4	(3.2)	(3.6)	(2.0)	(1.2)	(0.4)
CARs/GDP	48.5	37.7	41.2	49.2	48.1	45.1	44.7	45.5	46.0	46.6
Trade balance/GDP	(3.4)	(2.7)	(4.1)	(5.2)	(6.6)	(7.2)	(7.3)	(7.0)	(6.8)	(6.7)
Net FDI/GDP	(2.8)	(2.3)	2.0	3.8	4.0	0.5	0.5	0.5	0.5	0.5
Net portfolio equity inflow/GDP	(1.0)	(4.0)	(4.6)	(3.1)	(3.9)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)
Gross external financing needs/CARs plus usable reserves	80.1	80.2	90.6	92.6	96.1	102.4	93.8	96.1	93.8	93.8
Narrow net external debt/CARs	39.4	68.7	61.6	50.7	49.0	49.8	54.2	53.4	56.5	56.6
Narrow net external debt/CAPs	45.6	70.7	57.9	48.6	50.1	48.3	52.3	52.4	55.9	56.3
Net external liabilities/CARs	(43.6)	(97.4)	(107.6)	(48.1)	(71.7)	(71.8)	(66.9)	(62.9)	(61.5)	(60.9)
Net external liabilities/CAPs	(50.4)	(100.3)	(101.2)	(46.2)	(73.5)	(69.5)	(64.6)	(61.6)	(60.8)	(60.6)
Short-term external debt by remaining maturity/CARs	36.0	49.7	39.1	34.8	35.8	38.6	29.0	30.9	27.2	26.5
Usable reserves/CAPs (months)	7.3	10.3	6.8	5.8	4.8	4.5	4.8	4.5	4.4	4.2
Usable reserves (mil. $)	6,787	6,421	7,080	5,893	5,801	6,607	6,657	6,757	6,858	6,963
Fiscal indicators (general government; %)										
Balance/GDP	(1.4)	(8.2)	(7.7)	(3.1)	(1.4)	(1.8)	(1.4)	(1.1)	(0.8)	(0.6)
Change in net debt/GDP	8.1	6.8	7.3	8.0	2.2	2.6	(0.7)	1.3	0.9	0.6
Primary balance/GDP	0.7	(6.2)	(5.7)	0.3	1.7	1.9	1.7	1.7	1.9	2.0
Revenue/GDP	40.5	41.4	40.4	41.8	42.6	42.0	41.0	41.0	41.0	41.0
Expenditures/GDP	41.9	49.7	48.1	44.9	43.9	43.8	42.4	42.1	41.8	41.6
Interest/revenues	5.3	5.0	4.9	8.3	7.3	8.7	7.6	6.8	6.5	6.3
Debt/GDP	46.3	60.3	62.1	58.9	54.4	54.8	51.2	49.9	48.5	46.9
Debt/revenues	114.4	145.5	153.7	141.0	127.9	130.4	124.8	121.8	118.3	114.3
Net debt/GDP	37.0	45.1	47.7	48.1	45.3	45.2	42.1	41.3	40.3	39.0
Liquid assets/GDP	9.3	15.2	14.4	10.7	9.1	9.6	9.1	8.7	8.2	7.9
Monetary indicators (%)										
CPI growth	3.0	2.8	4.4	8.3	8.7	5.9	3.6	2.8	2.5	2.4

Table 1

Iceland--Selected indicators (cont.)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
GDP deflator growth	4.5	4.0	6.4	8.9	5.8	5.9	3.6	2.6	2.5	2.5
Exchange rate, year-end (LC/$)	121.10	127.21	130.38	142.04	136.20	138.20	134.30	134.90	135.28	135.28
Banks' claims on resident non-gov't sector growth	4.1	4.7	(7.4)	11.5	6.6	7.9	5.0	5.0	5.0	5.0
Banks' claims on resident non-gov't sector/GDP	128.5	139.0	115.3	108.3	103.3	104.8	104.1	104.0	104.0	104.2
Foreign currency share of claims by banks on residents	12.8	13.3	14.1	13.7	11.5	12.1	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	12.3	10.8	11.2	11.4	11.0	9.6	N/A	N/A	N/A	N/A
Real effective exchange rate growth	(7.0)	(7.5)	4.9	3.4	1.8	3.2	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. LC--Local currency. 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.

Ratings Score Snapshot

Table 2

Iceland--Ratings score snapshot

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.
		Although diversifying, the economy is still concentrated in tourism, fishing, and aluminum. Metal and fishing sectors each represent about 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 cases 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	2	As per Selected indicators in Table 1.

Table 2

Iceland--Ratings score snapshot (cont.)

Key rating factors	Score	Explanation
		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.
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	3	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue) as per Selected Indicators in Table 1.
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 reserves, the central bank can act as lender of last resort for the financial system. However, Iceland can exhibit a volatile real effective exchange rate over the economic cycle.
Indicative rating	aa-	As per Table 1 of "Sovereign Rating Methodology
Notches of supplemental adjustments and flexibility	-1	Iceland is vulnerable to adverse external developments outside of its control, such as geopolitical risks, trade and tariff tensions, environmental events, and fluctuating terms-of-trade (given the concentration of trade in a few key sectors), which are not fully captured in the indicative rating.
Final rating		
Foreign currency	A+	
Notches of uplift	0	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

- Sovereign Ratings List, Feb. 19, 2025
- Sovereign Ratings History, Feb. 19, 2025
- Sovereign Ratings Score Snapshot, Feb. 6, 2025
- Global Sovereign Rating Trends 2025: Geopolitical Risk Is The Biggest Threat To Credit Quality, Dec. 18, 2024
- Sovereign Risk Indicators, Dec. 9, 2024. Interactive version available at http://www.spratings.com/sri
- Iceland, Nov. 11, 2024
- Iceland 'A+/A-1' Ratings Affirmed; Outlook Stable, May 10, 2024
- Default, Transition, and Recovery: 2023 Annual Global Sovereign Default And Rating Transition Study, March 27, 2024
- Banking Industry Country Risk Assessment: Iceland, March 24, 2023

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed	
Iceland	
Sovereign Credit Rating	A+/Stable/A-1
Transfer & Convertibility Assessment	AA-
Senior Unsecured	A+
Short-Term Debt	A-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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