

Ratings Navigator			
Publish Date:	June 2020		
Ratings	Outlooks		
Long-Term FC IDR	A	Negative	
Long-Term LC IDR	A	Negative	
Short-Term FC IDR	F1+		
Short-Term LC IDR	F1+		
Country Ceiling	A+		
Rating History			
Date	LT FC IDR	Action	
22-May-20	A	Negative	Affirmed
22-Nov-19	A	Stable	Affirmed
24-May-19	A	Stable	Affirmed
7-Dec-18	A	Stable	Affirmed
8-Jun-18	A	Stable	Affirmed
8-Dec-17	A	Stable	Upgrade
7-Jul-17	A-	Positive	Upgrade
13-Jan-17	BBB+	Positive	Affirmed
15-Jul-16	BBB+	Stable	Affirmed
15-Jan-16	BBB+	Stable	Affirmed
24-Jul-15	BBB+	Stable	Upgrade
30-Jan-15	BBB	Positive	Affirmed
1-Aug-14	BBB	Stable	Affirmed
7-Feb-14	BBB	Stable	Affirmed

Sovereign Rating Model (SRM) Output ¹				
Factors	Structural	Macroeconomic	Public Finances	External Finances
Weights(%)	53.7	10.9	18.0	17.4
Percent Rank ⁴				
90-100				
80-90				
70-80	↓			
60-70			↓	
50-60				
40-50				
30-40				
20-30		↓		
10-20				
0-10				

Qualitative Overlay (QO) ²		0	A
Factors	Notch Adjustment		Long-Term FC IDR ³
Structural	0		AAA
Political Stability & Capacity			AA+
Financial Sector Risks			AA
Other Structural Factors			AA-
Macroeconomic	0		A+
Policy Credibility & Coherence			A
GDP Growth Outlook			A-
Macro Stability			BBB+
Public Finances	0		BBB
Fiscal Financing Flexibility			BBB-
Public Debt Sustainability ⁵			BB+
Fiscal Structure			BB
External Finances	0		BB-
External Financing Flexibility			B+
External Debt Sustainability			B
Vulnerability to Shocks			B-
Total QO Adjustment	0		CCC+/CCC/CCC-
			CC
			C
			RD
			D

Bar Chart Legend	
Vertical Bar Height = Percent Rank vs all Sovereigns	
Bar Colors = Relative Influence of Rating Factor in SRM ⁶	
■	Higher Influence (Sovereign Data)
■	Moderate Influence (Sovereign Data)
■	Lower Influence (Sovereign Data)
■	Peer Data (Rating Category Median)
Bar Arrows = Rating Factor Outlook	
↑	Positive
↓	Negative
↕	Evolving
□	Stable
◆	Peer Median
Applicable Criteria & References	
Sovereign Rating Criteria (Apr 2020)	
Country Ceilings Criteria (Jul 2019)	
Analysts	
Eugene Chiam (+44 20 3530 1512)	
Marlon Francisco (+49 69 768076 178)	

¹ See page 2 for full list of SRM indicators and data points.
² Adjustment framework. Maximum total net notching restricted to +3 to or -3, except in certain circumstances.
³ Long-Term Foreign Currency Issuer Default Rating (the "Sovereign rating") is equal to the SRM predicted rating plus the QO adjustment.
⁴ Relative to all rated Sovereigns.
⁵ And contingent liabilities.
⁶ Relative influence is fixed across all sovereigns, and reflects the relative weight of each rating factor in the SRM.

Rating Drivers	
Negative Outlook	Iceland is a small and highly open economy with a large concentration in tourism and commodity exports. Exposure to the coronavirus shock is resulting in a severe recession, widening budget deficits and large rise in government debt, with large downside risks.
Public Finances In Line with Peer Median	Iceland has a strong starting position with a small average fiscal surplus in 2017-2019 and low net public debt. Public debt should rise to 53% of GDP at end-2020, but fall slightly to 50% by 2024. There is a risk of medium-term fiscal slippage.
Sharp Growth Contraction, Risks on the Downside	Real GDP growth should fall by 8.5% in 2020, recovering to 4.4% in 2021. Large downside risks abound due to uncertainty about the pandemic's scope and length. We forecast tourism to fall by 80% in 2020, with aluminium and fresh fish exports also weighed by falling global demand.
Externals Resilient So Far, Capital Outflow Risks	Fitch forecasts the current account balance to fall to -2.3% of GDP in 2020 (2019: 5.8%). Capital account flows have been resilient, with FX reserves above seven-month imports. Capital flows are supported by pension funds agreeing to halt investments abroad but does not remove the risk of strong capital outflows.
Banks' Strong Start, Real-Estate Risks	Icelandic banks have strong capitalisation, liquidity and asset quality. However, asset-quality worsening is expected from the recession, and there are risks that a prolonged tourism contraction could spill over to real estate and banks.
Strong Governance, High Income, Low Indebtedness	Per capita income at USD71,142 in 2019 is above the 'A' and 'AAA' rated medians, and the private sector have relatively low indebtedness. Broad political consensus on macroeconomic and fiscal policy has underpinned the rebuilding of fiscal and external buffers over the past decade.

Rating Sensitivities	
Positives	
Confidence in Economic Recovery	Greater confidence that the economy will avoid a prolonged crisis, for example supported by diminishing downside risks in the export sectors.
Confidence in Public Debt Stabilisation	Greater confidence in general government debt/GDP stabilising in the medium term.
Negatives	
Severe Prolonged Economic Crisis	Severe and prolonged economic weakness, for example due to a larger-than-expected contraction in the export sector or sustained correction in the real estate market and material adverse impact on bank asset quality.
Failure to Stabilise Public Debt	Failure to stabilise general government debt/GDP, for example due to lack of fiscal consolidation after the initial coronavirus-related support measures, weaker growth prospects or materialisation of contingent liabilities.
Excessive Capital Outflows	Excessive capital outflows that precipitate macroeconomic instability or erosion of external buffers.

Sovereign Rating Model							
Model Framework			Country		Rating Category Data		
Indicator	Data point	Weight	Data	SRM	BBB	A	AA
		(%)		(Notches)	Median	Median	Median
Structural		53.7		9.30			
Composite Governance indicators	Latest, percentile	20.4	93.3	7.0	57.3	76.2	84.6
GDP per capita	Latest, percentile	12.3	94.9	3.8	50.8	65.5	81.0
Share in world GDP (%)	Latest	13.2	0.0	-2.2	0.2	0.3	0.4
Inverse years since Default/Restructuring ⁴	Declining weight	6.4	0.0	0.0	0.0	0.0	0.0
Broad money (% of GDP)	Latest	1.4	40.9	0.7	59.5	88.2	97.4
Macroeconomic		10.9		-1.03			
Real GDP volatility (standard deviation)	Weighted history	4.9	2.9	-0.8	3.2	2.7	2.1
CPI (annual average, truncated 2%-50%)	3 year centred avg	3.1	2.3	-0.1	3.4	2.3	2.2
Real GDP growth (%)	3 year centred avg	2.9	-0.9	-0.1	3.6	3.8	2.4
Public finances		18.0		-1.51			
Gross general govt debt (% of GDP)	3 year centred avg	8.0	42.6	-0.9	36.0	42.3	38.8
General govt interest (% of Revenue)	3 year centred avg	4.7	6.2	-0.3	6.9	4.7	4.0
General govt budget balance (% of GDP)	3 year centred avg	3.0	-3.1	-0.2	-2.3	-2.1	-0.4
Public foreign-currency debt (% of GGGD)	3 year centred avg	2.4	25.0	-0.2	36.5	10.8	0.7
External finances		17.4		0.20			
Reserve currency (share in global FX) ⁵	Declining weight	7.8	0.0	0.0	0.0	0.0	0.0
Sovereign net foreign assets (% of GDP)	3 year centred avg	6.7	13.7	0.2	2.7	14.1	4.3
Commodity dependence (% of CXR)	Latest	0.8	39.8	-0.1	21.2	10.6	16.8
Reserves (months of CXP) [for RC = 0 only]	Latest	1.3	7.8	0.2	4.9	3.9	0.6
External interest service (% of CXR)	3 year centred avg	0.7	4.3	-0.1	4.2	2.2	5.1
CAB + Net FDI (% of GDP)	3 year centred avg	0.2	0.5	0.0	0.6	2.4	0.6
Intercept term ¹				4.49			
Total		100		11.46 ²			
SRM predicted rating				A			
SRM override flag and applied rating ³	No			n.a.			

¹ The intercept term is constant across all sovereigns.

² Total maps to LT FC rating scale as follows: < 0.5 = CCC and Below, 0.5-1.5 = B-, 1.5-2.5 = B, etc up to 14.5-15.5 = AA+ and >15.5 = AAA.

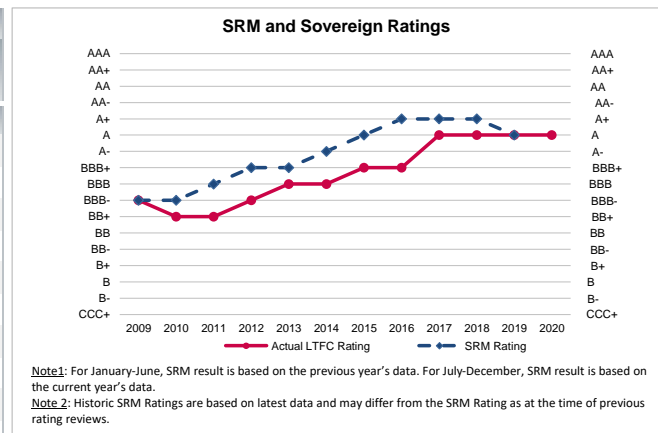
³ Sovereign Rating Committee can override SRM predicted rating if a marginal change in the Total result leads to a notch change which is judged to be temporary or caused by a re-estimation of the SRM, a process that Fitch undertakes on at least an annual basis.

⁴ A non-linear representation of the number of years since the last default or restructuring event, ranging from zero (if there has been no event after 1980) to one (if there has been an event in the current year, or the sovereign remains in default).

⁵ A non-linear representation, ranging from 0 to 4.6. The full share of Euro holdings is applied for all euro area economies.

Acronyms used: foreign currency (FC), local currency (LC), issuer default rating (IDR), gross domestic product (GDP), consumer price inflation (CPI), current external receipts (CXR), current external payments (CXP), gross general government debt (GGGD), reserve currency (share in global FX) (RC), foreign direct investment (FDI).

Peers	
Long-Term FC IDR	Country
A+	China
	Ireland
	Israel
	Malta
A	Iceland
	Chile
	Japan
	Lithuania
	Ras Al Khaimah
	Saudi Arabia
	Slovakia
	Slovenia
A-	Latvia
	Malaysia
	Poland
	Spain



Forecast Summary Tables					
Indicator	2017	2018	2019	2020f	2021f
Real GDP growth (%)	4.5	3.8	1.9	-8.5	4.4
CPI (annual average)	-1.6	0.7	2.0	3.0	2.5
Unemployment rate (%)	2.8	2.7	3.6	8.8	6.5
Short-term interest rate (annual avg%)	4.0	4.3	2.8	1.0	1.5
General govt budget balance (% of GDP)	0.6	0.8	-1.0	-9.0	-4.5
Gross general govt debt (% of GDP)	43.2	37.4	37.1	53.3	51.9
Current account balance (% of GDP)	3.8	3.1	5.8	-2.3	0.6
Net external debt (% of GDP)	31.7	19.4	19.4	33.2	29.8
Official international reserves (USDbn)	6.6	6.3	6.8	5.5	4.9
Nominal GDP (USDbn)	24.5	25.7	24.2	18.6	21.5
Exchange rate per USD (end-year)	104.42	116.33	121.10	148.00	130.00

Credit-Relevant ESG Derivation

Iceland has 2 ESG key rating drivers, 2 ESG rating drivers and 9 ESG partial rating drivers

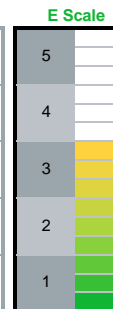
- ➔ Iceland has an ESG Relevance Score of 5 for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM and are highly relevant to the rating and a key rating driver with a high weight.
- ➔ Iceland has an ESG Relevance Score of 5 for Rule of Law, Institutional & 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.
- ➔ Iceland has an ESG Relevance Score of 4 for Human Rights and Political Freedoms as strong social stability and voice and accountability are reflected in the World Bank Governance Indicators that have the highest weight in the SRM. They are relevant to the rating and a rating driver.
- ➔ 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 the Iceland, as for all sovereigns.
- ➔ Iceland has an ESG Relevance Score of 3 for Biodiversity and Natural Resource Management as tourism is a key service export sector that relies heavily on preservation of its natural surroundings, which is relevant to the rating in combination with other factors.
- ➔ Iceland has an ESG Relevance Score of 3 for Natural Disasters and Climate Change as Iceland is in an active volcanic area and has experienced disruptions to tourism and its economy from volcanic activity in recent years, which is relevant to the rating in combination with other factors.

Showing top 6 issues

				Overall ESG Scale	
key driver	2	issues	5		
driver	2	issues	4		
partial driver	9	issues	3		
not a rating driver	2	issues	2		
	0	issues	1		

Environmental (E)

General Issues	SRM	QO	E Score	Key Sovereign Issues	Sovereign Rating Criteria References
GHG Emissions and Air Quality	2	2	2	Emissions and air pollution as a constraint on GDP growth	SRM - Macroeconomic performance, policies and prospects (Macro); Macro: real GDP growth; QO - Macro: GDP growth outlook
Energy Management	3	2	3	Management of energy resource endowments affecting exports, government revenues and GDP	SRM - External finances: commodity dependence; SRM and QO - indirectly affects other SRM variables and QO judgments
Water Resources and Management	2	2	2	Water resource availability and management as a constraint on GDP growth	SRM - Macro: real GDP growth; QO - Macro: GDP growth outlook
Biodiversity and Natural Resource Management	3	3	3	Management of natural resource endowments affecting exports, government revenues and GDP	SRM - External finances: commodity dependence; SRM and QO - indirectly affects other SRM variables and QO judgments
Natural Disasters and Climate Change	3	3	3	Likelihood of and resilience to shocks	SRM - Structural features: share in world GDP; Macro: GDP volatility; QO - External finances: vulnerability to shocks; SRM and QO - potential impact on other variables

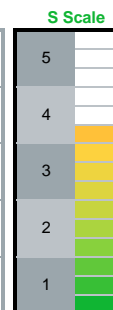


How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The E, S or G score for each General Issue component reflects the higher of the SRM (Sovereign Rating Model) and Qualitative Overlay (QO) sub scores, which are derived from the SRM and QO steps of the Sovereign Rating Criteria, respectively. The right-hand box shows the aggregate E, S, or G score. General Issues and the more specific Key Sovereign Issues are relevant across all sovereigns. Scores are assigned to each Key Sovereign Issue. These scores signify the credit-relevance of the Key Sovereign Issues to the issuing entity's overall credit rating. The Sovereign Rating Criteria References box highlights the particular criterion which the corresponding ESG issues are captured by in Fitch's credit analysis.

Social (S)

General Issues	SRM	QO	S Score	Key Sovereign Issues	Sovereign Rating Criteria References
Human Rights and Political Freedoms	4	2	4	Social stability, voice and accountability, regime legitimacy	SRM - Structural features: World Bank governance indicators (have highest weight in SRM); QO - Structural features: political stability & capacity
Human Development, Health and Education	3	3	3	Impact of human development, health and education on GDP per capita and GDP growth	SRM - Structural features: GDP per capita; Macro: real GDP growth; QO - Macro: GDP growth outlook
Employment and Income Equality	3	2	3	Impact of unemployment and income equality on GDP per capita, GDP growth and political and social stability	SRM - Structural features: GDP per capita; Macro: real GDP growth; QO - Macro: GDP growth outlook; Structural features: political stability & capacity
Public Safety and Security	3	2	3	Impact of public safety and security on business environment and/or economic performance	SRM - Macro: real GDP growth; QO - Structural features: political stability & capacity and business environment; Macro: GDP growth outlook
Demographic Trends	3	2	3	Population decline or aging, rapidly rising youth population; pensions sustainability	SRM - Macro: real GDP growth; Public Finances: government debt/GDP; QO - Public finances: public debt sustainability; Structural features: political stability; Macro: growth outlook

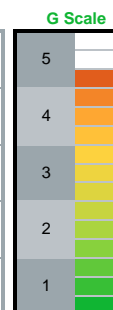


The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or partial drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's Sovereign Rating Criteria and the General Issues and Key Sovereign Issues have been informed by SASB's Materiality Map and the UNPRI's sovereign fixed income working group framework.

Governance (G)

General Issues	SRM	QO	G Score	Key Sovereign Issues	Sovereign Rating Criteria References
Political Stability and Rights	5	2	5	Political divisions and vested interests; geo-political risks including conflict, security threats and violence; policy capacity; unpredictable policy shifts or stasis	SRM - Structural features: World Bank governance indicators (have highest weight in SRM); QO - Structural features: political stability & capacity
Rule of Law, Institutional & Regulatory Quality, Control of Corruption	5	2	5	Government effectiveness, control of corruption, rule of law, regulatory quality	SRM - Structural features: World Bank governance indicators (have highest weight in SRM); QO - Structural features: political stability & capacity and business environment
International Relations and Trade	3	2	3	Trade agreements, membership of international organizations, bilateral relations; sanctions or other costly international actions	SRM - External finances: Current account deficit and FDI; Macro: real GDP growth; QO - Structural features: political stability and business environment; External finances: vulnerability to shocks
Creditor Rights	4	2	4	Willingness to service and repay debt	SRM - Structural features: years since default or restructuring even; QO - Potential adjustment in one of the QO pillars
Data Quality and Transparency	3	2	3	Availability, limitations and reliability of economic and financial data, including transparency of public debt and contingent liabilities	Data Sources, Limitations and Reasonable Investigation; Data Revisions and Limitations



CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant to rating, a key rating driver with a high weight.
4	Relevant to rating, a rating driver.
3	Relevant, but only has an impact on entity rating in combination with other factors.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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