

Iceland

This report does not constitute a new rating action for this issuer. To accommodate a higher frequency of rating reviews during the coronavirus pandemic, Fitch is publishing scaled-down Sovereign Rating Reports that focus on data and forecasts encompassed in reviews. For the rating rationale, refer to the relevant published Rating Action Commentary (see Related Research).

Comparative Analysis - Key Indicator Charts



Note: Medians 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.

Source: Fitch Ratings

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1+
Local Currency	
Long-Term IDR	A
Short-Term IDR	F1+
Country Ceiling	A+

Outlooks

Long-Term Foreign-Currency IDR	Negative
Long-Term Local-Currency IDR	Negative

Rating Derivation

Component	Outcome
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

Applicable Criteria

[Sovereign Rating Criteria \(October 2020\)](#)
[Country Ceilings Criteria \(July 2020\)](#)

Related Research

[Iceland Rating Action Commentary \(October 2020\)](#)
[Global Economic Outlook \(September 2020\)](#)
[Western Europe Sovereign Credit Overview: 3Q20 \(July 2020\)](#)
[Sovereign Data Comparator \(September 2020\)](#)

Financial Data

(USDbn)	2020F
GDP	20.6
GDP per head (USD 000)	61.6
Population (m)	0.4
International reserves	7.2
Net external debt (% GDP)	26.9
Central government total debt (% GDP)	41.6
CG foreign-currency debt	2.7
CG domestically issued debt (ISKbn)	926.7

Source: Fitch Ratings

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Comparative Analysis - Strengths & Weaknesses Table

2020F	Iceland A	A Median ^a	BBB Median ^a	Chile A-	Slovenia A	Slovakia A
Structural Features						
GDP per capita (USD, mkt exchange rates)	61,632	19,591	9,915	12,701	24,769	17,981
GNI per capita (PPP, USD, latest)	61,170	38,940	23,880	-	40,070	33,680
GDP (USDbn)	21	183	124	243	52	98
Human Development Index (percentile, latest)	96.8	82.2	66.9	-	87.7	80.3
Governance Indicator (percentile, latest) ^b	94.0	76.0	58.1	78.0	80.3	72.9
Broad money (% GDP)	52.4	87.6	59.5	138.8	68.7	87.2
Default record (year cured) ^c	-	-	-	24190	1996	-
Ease of Doing Business (percentile, latest)	86.8	83.0	70.7	69.4	81.0	76.8
Trade openness (avg. of CXR + CXP % GDP)	38.5	62.5	46.5	37.2	72.2	84.9
Gross domestic savings (% GDP)	21.6	27.0	22.7	21.8	28.0	20.3
Gross domestic investment (% GDP)	19.5	23.8	23.6	20.3	18.0	19.9
Private credit (% GDP)	102.3	71.1	56.9	93.7	46.7	72.7
Bank Systemic Risk Indicators ^d	n.a. / 1	-	-	a / 1	bb / 1	n.a. / 2
Bank system capital ratio (% assets)	24.8	14.8	15.2	-	-	18.0
Foreign bank ownership (% assets)	12.0	46.0	30.4	-	-	99.0
Public bank ownership (% assets)	68.0	15.8	13.4	-	-	1.0
Macroeconomic Performance and Policies						
Real GDP (5yr average % change)	1.8	4.1	3.6	0.4	1.4	0.6
Volatility of GDP (10yr rolling SD)	4.0	2.5	2.9	3.3	3.7	4.1
Consumer prices (5yr average)	0.6	2.4	3.9	2.8	1.0	1.5
Volatility of CPI (10yr rolling SD)	2.3	1.8	2.1	0.8	1.0	1.6
Unemployment rate (%)	7.7	6.4	7.6	12.0	6.8	8.0
Type of exchange rate regime	Floating	-	-	Free floating	Free Floating	Free Floating
Dollarisation ratio (% of bank deposits)	-	10.3	17.1	-	-	3.1
REER volatility (10yr rolling SD)	7.4	5.1	4.9	4.3	1.4	1.6
Public Finances^e						
Budget balance (% GDP)	-10.9	-2.4	-2.3	-8.4	-9.4	-7.7
Primary balance (% GDP)	-8.7	-0.5	-0.3	-7.4	-7.7	-5.4
Gross debt (% revenue)	130.1	132.2	138.8	156.5	195.0	148.3
Gross debt (% GDP)	51.7	43.0	36.4	34.0	82.1	60.0
Net debt (% GDP)	40.8	38.2	30.6	27.9	62.6	57.8
Foreign-currency debt (% total debt)	18.6	10.7	34.7	25.8	4.6	7.9
Interest payments (% revenue)	5.5	4.6	6.9	4.6	4.2	5.7
Revenues and grants (% GDP)	39.7	35.9	31.4	21.7	42.1	40.5
Volatility of revenue/GDP ratio	12.2	5.4	6.2	3.4	2.5	4.9
Central government debt maturities (% GDP)	8.4	5.0	5.1	0.9	7.8	3.5
External Finances						
Current account balance + net FDI (% GDP)	0.4	2.3	0.6	-1.0	7.1	-3.0
Current account balance (% GDP)	0.6	0.9	-1.7	-0.8	6.1	-4.1
Net external debt (% GDP)	26.9	-9.6	6.7	27.4	5.5	38.8
Gross external debt (% CXR)	250.0	105.8	115.4	224.4	137.1	155.2
Gross sovereign external debt (% GXD)	18.2	16.1	30.9	17.9	61.7	60.1
Sovereign net foreign assets (% GDP)	17.4	13.9	2.8	9.0	-24.7	-27.5
Ext. interest service ratio (% CXR)	5.4	2.3	4.3	7.4	1.3	1.5
Ext. debt service ratio (% CXR)	21.6	11.8	15.2	38.4	12.9	9.1
Foreign-exchange reserves (months of CXP)	11.0	4.4	4.9	5.1	0.6	1.6
Liquidity ratio (latest) ^f	205.0	115.1	149.9	72.8	22.8	25.1
Share of currency in global reserves (%)	-	-	-	-	20.0	20.0
Commodity export dependence (% CXR, latest)	53.3	10.7	20.7	66.0	12.7	8.4
Sovereign net foreign-currency debt (% GDP)	-25.5	-12.5	-6.7	-7.2	0.2	-6.8

^a Medians based on three-year centred averages.

^b Composite of six World Bank Governance Indicators used in the Sovereign Rating Model: Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence.

^c No recent history of default. For further details on this indicator, please refer to the Sovereign Rating Criteria (see paragraphs for the SRM variable for Years since default or restructuring).

^d Bank systemic indicator, which equates to a weighted-average Viability Rating; and macro-prudential indicator, with 1 'low' systemic risk through to 3 'high'.

^e General government unless stated.

^f Ratio of liquid external assets, defined as the stock of official FX reserves including gold at the end of the previous calendar year plus banks' liquid external assets, to liquid external liabilities, defined as scheduled external debt service in the current year, plus the stock of short-term external debt and all non-resident holdings of marketable medium- and long-term local-currency debt at the end of the previous calendar year.

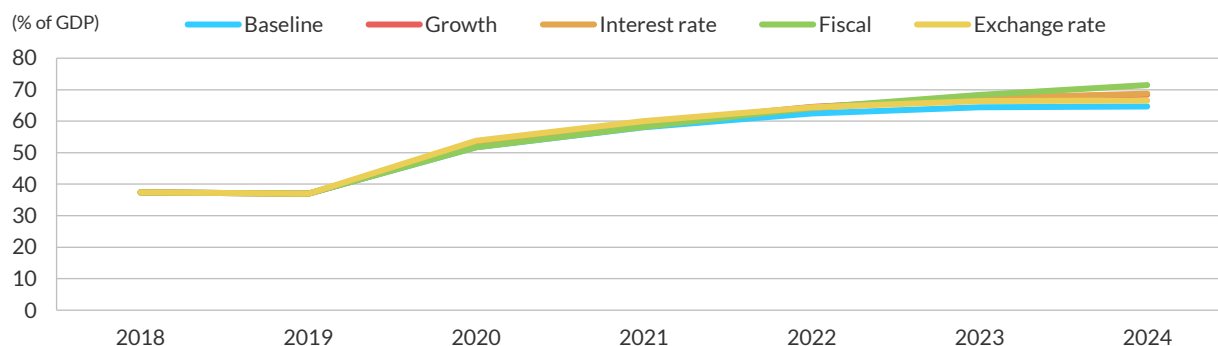
Note: Acronyms used: consumer price inflation (CPI), gross domestic product (GDP), current external receipts (CXR), current external payments (CXP), gross national income (GNI), purchasing power parity (PPP), standard deviation (SD), foreign direct investment (FDI).

Source: Fitch Ratings

Public Debt Dynamics

Sensitivity Analysis

Gross general government debt



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.

Source: Fitch Ratings' Debt Dynamics Model

Debt Dynamics - Fitch's Baseline Assumptions

	2019	2020	2021	2022	2023	2024
Gross general government debt (% of GDP)	37.0	51.7	58.0	62.5	64.5	64.7
Primary balance (% of GDP)	0.9	-8.7	-7.9	-5.8	-3.0	-1.0
Real GDP growth (%)	1.9	-8.0	4.0	3.1	2.5	2.0
Avg. nominal effective interest rate (%)	6.8	5.6	3.6	3.1	2.9	2.8
ISK/USD (annual avg)	122.6	136.7	130.0	125.0	125.0	125.0
GDP deflator	4.5	3.3	2.5	2.4	2.0	2.0

Source: Fitch Ratings

Debt Sensitivity Analysis - Fitch's Scenario Assumptions

Growth	GDP growth 1.4% lower (half standard deviation lower)
Interest rate	Marginal interest rate 250bp higher
Fiscal	Slower primary deficit reduction from 2021
Exchange rate	30% devaluation at end-2020

Source: Fitch Ratings

Detailed Data Tables

Forecast Summary

	2016	2017	2018	2019	2020F	2021F	2022F
Macroeconomic Indicators and Policy							
Real GDP growth (%)	6.6	4.5	3.9	1.9	-8.0	4.0	3.1
Unemployment (%)	2.9	2.8	2.7	3.6	7.7	7.0	6.0
Consumer prices (annual average % change)	0.8	-1.6	0.7	2.0	1.1	1.5	2.5
Short-term interest rate (bank policy annual avg) (%)	4.8	4.0	4.3	2.8	1.2	1.8	2.5
General government balance (% of GDP)	12.4	0.6	0.8	-1.5	-10.9	-9.6	-7.5
General government debt (% of GDP)	51.2	43.2	37.4	37.0	51.7	58.0	62.5
ISK per USD (annual average)	120.8	106.8	108.3	122.6	136.7	130.0	125.0
Real effective exchange rate (2000=100)	93.5	104.7	102.0	95.1	85.6	87.3	90.8
Real private sector credit growth (%)	4.1	10.3	11.9	1.9	6.3	1.5	-0.5
External Finance							
Current account balance (% of GDP)	7.6	3.8	3.2	6.2	0.6	1.0	1.8
Current account balance plus net FDI (% of GDP)	11.1	4.5	1.4	3.0	0.4	0.8	1.6
Net external debt (% of GDP)	32.6	32.2	20.0	19.8	26.9	24.9	23.2
Net external debt (% of CXR)	60.9	64.1	39.0	40.0	69.5	62.3	59.1
Official international reserves including gold	7,226	6,566	6,321	6,782	7,246	6,999	6,929
Official international reserves (months of CXP cover)	9.1	6.9	6.1	7.8	11.0	9.3	8.7
External interest service (% of CXR)	5.6	4.6	3.8	3.8	5.4	4.9	4.5
Gross external financing requirement (% int. reserves)	-15.2	1.1	19.9	2.6	17.3	9.2	19.2
Real GDP growth (%)							
US	1.7	2.3	3.0	2.2	-4.6	4.0	3.0
China	6.7	6.9	6.7	6.1	2.7	7.7	5.5
Eurozone	2.0	2.4	1.9	1.3	-9.0	5.5	3.2
World	2.6	3.4	3.2	2.6	-4.4	5.2	3.6
Oil (USD/barrel)	45.1	54.9	71.5	64.1	41.0	45.0	50.0

Source: Fitch Ratings

Detailed Data Tables

Fiscal Accounts Summary

% of GDP	2017	2018	2019	2020F	2021F	2022F
General government						
Revenue	43.5	43.1	40.8	39.7	38.3	39.3
Expenditure	42.9	42.3	42.3	50.6	47.9	46.8
o/w interest payments	3.9	2.9	2.6	2.2	1.7	1.7
Primary balance	4.5	3.7	0.9	-8.7	-7.9	-5.8
Overall balance	0.6	0.8	-1.5	-10.9	-9.6	-7.5
General government debt						
% of general government revenue	99.4	86.8	90.8	130.1	151.5	159.0
Central government deposits	7.2	8.0	8.6	10.8	10.2	9.6
Net general government debt	36.0	29.3	28.4	40.8	47.9	52.9
Central government						
Revenue	32.2	31.5	29.3	28.6	27.6	28.3
o/w grants	0.4	0.5	0.5	0.5	0.5	0.5
Expenditure and net lending	30.4	30.6	30.6	36.6	34.7	33.9
o/w current expenditure and transfers	28.9	29.1	29.1	34.8	32.9	32.2
- interest	3.4	2.4	2.2	3.0	3.4	3.6
o/w capital expenditure	1.5	1.5	1.5	1.8	1.8	1.7
Current balance	3.2	2.5	0.3	-6.2	-5.3	-3.9
Primary balance	5.2	3.4	0.9	-5.0	-3.7	-1.9
Overall balance	1.7	1.0	-1.3	-8.0	-7.1	-5.6
Central government debt						
% of central government revenues	108.3	95.2	101.5	145.5	169.5	177.9
Central government debt (ISKbn)						
By residency of holder	911	837	885	1,174	1,407	1,599
Domestic	799	727	796	1,056	1,265	1,437
Foreign	112	110	89	119	142	162
By currency denomination						
Local currency	795	713	698	794	963	1,075
Foreign currency	117	125	187	380	444	524
in USD equivalent (eop exchange rate)	1	1	2	3	3	4
Average maturity (years)	6.3	6.3	5.5	-	-	-
Memo:						
Nominal GDP (ISKbn)	2,616	2,788	2,970	2,822	3,010	3,177

Source: Fitch Ratings estimates and forecasts and Ministry of Finance

Detailed Data Tables

External Debt and Assets

(USD Billions)	2015	2016	2017	2018	2019	2020F
Gross external debt	30.4	26.0	22.5	20.0	19.2	20.0
% of GDP	175.1	126.1	92.0	77.8	79.2	96.9
% of CXR	304.4	235.1	183.2	151.9	160.2	250.0
By maturity						
Medium- and long-term	19.0	24.3	21.0	18.6	17.9	18.6
Short-term	11.4	1.7	1.6	1.4	1.3	1.4
% of total debt	37.6	6.4	6.9	7.1	6.9	6.9
By debtor						
Sovereign	4.5	3.9	2.8	2.5	3.0	3.6
o/w central bank	0.3	0.4	0.4	0.4	0.5	0.5
Banks	2.2	4.2	5.8	5.9	5.5	5.7
Other sectors	23.8	17.9	14.0	11.6	10.7	10.6
Gross external assets (non-equity)						
International reserves, incl. gold	5.0	7.2	6.6	6.3	6.8	7.2
Other sovereign assets nes	0.0	0.0	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	2.8	2.3	3.1	3.6	3.1	3.1
Other sector foreign assets	15.9	9.8	5.1	5.0	4.6	4.4
Net external debt						
% of GDP	39.6	32.6	32.2	20.0	19.8	26.9
Net sovereign external debt	-0.5	-3.4	-3.8	-3.8	-3.8	-3.6
Net bank external debt	-0.5	2.0	2.8	2.3	2.5	2.9
Net other external debt	7.9	8.1	8.9	6.6	6.1	6.3
Net international investment position						
% of GDP	-4.7	2.2	2.0	9.2	22.7	0.0
Sovereign net foreign assets						
% of GDP	3.1	16.3	15.6	14.7	15.7	17.4
Debt service (principal & interest)						
Debt service (% of CXR)	258.6	12.8	12.8	19.9	17.6	21.6
Interest (% of CXR)	9.3	5.6	4.6	3.8	3.8	5.4
Liquidity ratio (%)						
Net sovereign FX debt (% of GDP)	-15.4	-26.3	-22.3	-20.4	-21.6	-25.5
Memo:						
Nominal GDP	17.4	20.6	24.5	25.7	24.2	20.6
Inter-company loans	8.8	10.2	6.4	4.5	4.7	4.7

Source: Fitch Ratings estimates and forecasts, central bank, IMF and World Bank

Detailed Data Tables

Balance of Payments

(USD Billions)	2017	2018	2019	2020F	2021F	2022F
Current account balance	0.9	0.8	1.5	0.1	0.2	0.5
% of GDP	3.8	3.2	6.2	0.6	1.0	1.8
% of CXR	7.5	6.2	12.5	1.6	2.5	4.6
Trade balance	-1.5	-1.5	-0.8	0.1	-0.1	0.0
Exports, fob	5.0	5.7	5.3	4.8	5.1	5.3
Imports, fob	6.5	7.2	6.2	4.7	5.1	5.3
Services, net	2.6	2.3	2.0	0.0	0.3	0.6
Services, credit	6.3	6.6	5.7	2.5	3.4	3.9
Services, debit	3.8	4.3	3.6	2.5	3.1	3.4
Income, net	0.1	0.2	0.5	0.3	0.2	0.2
Income, credit	0.8	0.7	0.7	0.5	0.6	0.6
Income, debit	0.7	0.5	0.2	0.2	0.4	0.4
O/w: interest payments	0.6	0.5	0.4	0.4	0.4	0.5
Current transfers, net	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Capital and Financial Accounts:						
Non-debt-creating inflows (net)	1.7	1.6	0.7	0.1	0.5	0.3
o/w equity FDI	0.5	1.0	-0.9	-0.1	0.3	0.2
o/w portfolio equity	1.2	0.6	1.6	0.2	0.2	0.1
o/w other flows	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves	-0.8	0.0	0.6	0.4	-0.2	-0.1
Gross external financing requirement	0.1	1.3	0.2	1.2	0.7	1.3
Stock of international reserves, incl. gold	6.6	6.3	6.8	7.2	7.0	6.9

Source: Fitch Ratings estimates and forecasts and IMF

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