

Ratings Navigator		
Publish Date:	December 2019	
Ratings	Outlooks	
Long-Term FC IDR	A	Stable
Long-Term LC IDR	A	Stable
Short-Term FC IDR	F1+	
Short-Term LC IDR	F1+	
Country Ceiling	A+	
Rating History		
Date	LT FC IDR	Action
22-Nov-19	A	Stable Affirmed
24-May-19	A	Stable Affirmed
07-Dec-18	A	Stable Affirmed
08-Jun-18	A	Stable Affirmed
08-Dec-17	A	Stable Upgrade
07-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
01-Aug-14	BBB	Stable Affirmed
07-Feb-14	BBB	Stable Affirmed
11-Oct-13	BBB	Stable Affirmed

Sovereign Rating Model (SRM) Output ¹				
Factors	Structural	Macroeconomic	Public Finances	External Finances
Weights(%)	53.6	11.2	17.4	17.8
Percent Rank ⁴				
90-100				
80-90				
70-80				
60-70				
50-60				
40-50				
30-40				
20-30				
10-20				
0-10				

A+	Qualitative Overlay (QO) ²		-1	A
SRM Predicted Rating	Factors	Notch Adjustment	Long-Term FC IDR ³	
AAA	Structural	0	AAA	
AA+	Political Stability & Capacity		AA+	
AA	Financial Sector Risks		AA	
AA-	Business Environment		AA-	
A+	Macroeconomic	0	A+	
A	Policy Credibility & Coherence		A	
A-	GDP Growth Outlook		A-	
BBB+	Macro Stability		BBB+	
BBB	Public Finances	0	BBB	
BBB-	Fiscal Financing Flexibility		BBB-	
BB+	Public Debt Sustainability ⁵		BB+	
BB	Fiscal Structure		BB	
BB-	External Finances	-1	BB-	
B+	External Financing Flexibility		B+	
B	External Debt Sustainability		B	
B-	Vulnerability to Shocks		B-	
CCC+	Total QO Adjustment	-1	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
Relevant Criteria	
Sovereign Rating Criteria (May 2019)	
Country Ceilings Criteria (Jul 2019)	
Analysts	
Eugene Chiam (+44 20 3530 1512)	
Douglas Winslow (+44 20 3530 1721)	

¹ See page 2 for full list of SRM indicators and data points.
² Adjustment framework. Maximum total net notching restricted to +3 to -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	
Strong Structurals, Healthy Fiscals	Iceland has very high income per capita, solid performance on governance, human development and doing business metrics, and healthy public finances. Broad consensus among political parties on macro and fiscal policy has rebuilt buffers.
Near-Term Shock Hits Growth	Iceland's near-term growth outlook has worsened since the closure of WowAir and grounding of Boeing 737 Max jets affected the tourism and aviation sectors. However, growth should recover towards a trend rate of 2% in the medium term.
Current Account Surpluses, Limited Diversification	Notwithstanding six years of large current account surpluses averaging 4.8% of GDP, Iceland lacks diversification in its export base, which makes the economy vulnerable to terms-of-trade shocks and the krona sensitive to capital flows.
Government Surplus Reducing Debt	Public finances are a strength for Iceland's rating. Fitch forecasts the general government surplus to be 0.2% of GDP in 2019, and debt to fall to 35% of GDP in 2019, and to 30% by 2023. Fiscal policy is loosening slightly in 2019-2021 in response to the slowdown.
Real Estate Risks Rising	Dampened tourism, a weaker labour market, and rising building completions could lead to a correction in real estate prices, presenting downside risks to growth. House price growth peaked at 24% yoy in July 2017, but slowed to 4% yoy in October 2019.
Pension Funds Rebalancing Assets Abroad	Pension funds hold 164% of GDP in assets, with 28% of assets invested abroad. Narrowing differentials with international interest rates could accelerate pension funds' portfolio rebalancing to diversify assets overseas after years of capital controls.

Summary Strengths & Weaknesses (SRM + QO)				
	Structural	Macroeconomic	Public Finances	External Finances
Status	Strength	Weakness	Neutral	Weakness
Trend	Stable	Stable	Positive	Stable

Rating Sensitivities	
Positives	
Improved External Resilience	Sustained improvement in the external balance sheet and increased resilience of the economy to external shocks
Marked Fiscal Buffers Improvement	A marked improvement in the general government's balance sheet, supported by prudent fiscal policy
Negatives	
Economic Downturn Affecting Banks	A sustained sharper-than-expected economic downturn affecting the banking sector (e.g. through the real estate market)
Excessive Capital Outflows	Excessive capital outflows jeopardising financial stability and weakening 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		53.6		9.39			
Composite governance indicators	Latest, percentile	19.8	93.3	6.9	58.1	76.0	84.6
GDP per capita	Latest, percentile	12.9	93.9	3.9	50.8	65.5	81.0
Share in world GDP (%)	Latest	12.8	0.0	-2.1	0.2	0.3	0.4
Inverse years since Default/Restructuring ⁴	Declining weight	6.6	0.0	0.0	0.0	0.0	0.0
Broad money (% of GDP)	Latest	1.4	42.8	0.7	59.6	88.9	97.4
Macroeconomic		11.2		-0.83			
Real GDP volatility (standard deviation)	Weighted history	5.3	3.2	-1.0	3.2	2.6	1.9
CPI (%) - yoy change in annual average	3 year centred avg	2.8	1.4	-0.1	3.4	2.4	2.3
Real GDP growth (%)	3 year centred avg	3.1	2.1	0.2	3.6	3.9	2.4
Public finances		17.4		-1.12			
Gross general govt debt (% of GDP)	3 year centred avg	7.7	35.1	-0.7	35.9	42.6	39.0
General govt interest (% of Revenue)	3 year centred avg	4.6	6.3	-0.3	6.9	4.7	4.0
General govt budget balance (% of GDP)	3 year centred avg	3.1	0.3	0.0	-2.3	-2.3	-0.4
Public foreign-currency debt (% of GGGD)	3 year centred avg	2.1	24.2	-0.1	36.0	11.6	0.8
External finances		17.8		0.18			
Reserve currency (share in global FX) ⁵	Declining weight	7.9	0.0	0.0	0.0	0.0	0.0
Sovereign net foreign assets (% of GDP)	3 year centred avg	6.5	16.0	0.2	2.8	14.6	4.3
Commodity dependence (% of CXR)	Latest	0.9	37.6	-0.1	20.8	10.6	16.9
Reserves (months of CXP) [for RC = 0 only]	Latest	1.4	6.4	0.2	4.9	3.9	0.6
External interest service (% of CXR)	3 year centred avg	1.0	3.5	-0.1	4.3	2.3	4.5
CAB + Net FDI (% of GDP)	3 year centred avg	0.2	2.9	0.0	0.4	2.2	0.6
Intercept term ¹				4.48			
Total		100		12.10 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.

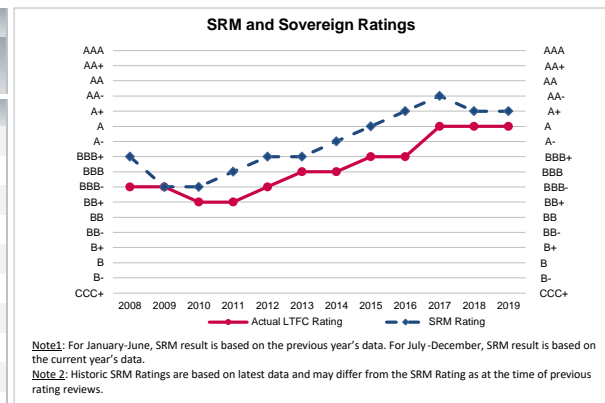
³ Sovereign Rating Committee can override SRM predicted rating if a marginal change in the Total result leads to a notch change which is judged to be temporary or caused by a re-estimation of the SRM, a process that Fitch undertakes on at least an annual basis.

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



Forecast Summary Tables					
Indicator	2017	2018	2019f	2020f	2021f
Real GDP growth (%)	4.4	4.8	-0.2	1.6	2.5
CPI (%) - yoy change in annual average	-1.6	0.7	1.5	2.0	3.0
Unemployment rate (%)	2.8	3.0	3.3	3.5	3.6
Short-term interest rate (annual avg%)	4.0	4.3	3.5	3.3	4.0
General govt budget balance (% of GDP)	0.5	0.8	0.2	-0.1	0.3
Gross general govt debt (% of GDP)	43.3	35.9	35.3	34.1	32.1
Current account balance (% of GDP)	3.7	2.9	3.3	3.5	3.8
Net external debt (% of GDP)	30.9	20.5	15.3	9.1	2.2
Official international reserves (USDbn)	6.6	6.3	6.5	6.8	7.1
Nominal GDP (USDbn)	24.5	26.0	24.4	24.0	25.3
Exchange rate per USD (end-year)	104.42	116.33	122.70	122.70	122.70

Credit-Relevant ESG Derivation

Overall ESG Scale

Iceland has 2 ESG key rating drivers, 2 ESG rating drivers and 9 ESG partial rating drivers				key driver	2	issues	5	
<ul style="list-style-type: none"> ➔ Iceland has an ESG Relevance Score of 5 for Political Stability and Rights as political stability, including divisions and vested interests as reflected in the World Bank Governance Indicators 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 these measures, as reflected in the World Bank Governance Indicators, are highly relevant to the rating and a key rating driver with a high weight. ➔ Iceland has an ESG Relevance Score of 4 for Human Rights and Political Freedoms as social stability, voice and accountability as reflected in the World Bank Governance Indicators are relevant to the rating and are rating drivers. ➔ Iceland has an ESG Relevance Score of 4 for Creditors Rights as willingness to service and repay debt is relevant to the rating and a rating driver, as for all sovereigns. ➔ Tourism is a key service export sector relying heavily on preservation of the natural surroundings. Mismanagement of the natural environment and tourism capacity could result in shocks to this key export sector, making 'Biodiversity and Natural Resource Management' a relevant rating driver. ➔ Iceland is in an active volcanic area and has experienced disruptions to tourism and its economy from volcanic activity in recent years. A shock to the export sector could emanate from a severe volcanic event, making 'Natural Disasters and Climate Change' a relevant rating driver. 	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	E Scale
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	S Scale
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	2	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	G Scale
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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