

Ratings Navigator		
Publish Date:	June 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
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
14-Feb-13	BBB Stable	Upgrade

Sovereign Rating Model (SRM) Output ¹					A+
Factors	Structural	Macroeconomic	Public Finances	External Finances	SRM Predicted Rating
Weights(%)	54.7	10.5	16.7	18.1	
Percent Rank ⁴					AAA
90-100					AA+
					AA
					AA-
80-90					A+
					A
70-80					A-
					BBB+
60-70					BBB
					BBB-
50-60					BB+
					BB
40-50					BB-
					B+
30-40					B
					B-
20-30					CCC or Below
10-20					
0-10					

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	
	Evolving	
	Peer Median	Stable

Relevant Criteria
Sovereign Rating Criteria (Jul 2018)
Country Ceilings Criteria (Jul 2018)
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 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	
Strong Structurals, Weak External Finances	Iceland's income per capita is high and its World Bank Governance, Human Development and Ease of Doing Business indicators outperform peers. However, the country's small economy and limited diversification result in vulnerability to external shocks and macro and financial volatility.
Growth Slowdown from Cyclical Highs	Real GDP growth averaged 4.6% in 2017-2018, and we forecast it will fall to 0.0% in 2019 due to shocks in fisheries and tourism. Growth should recover to 2.5% in 2020 and average 2% in the medium term as the overheated tourism sector cools.
Easing Labour Tensions, Moderate Inflation Pressures	WowAir's collapse accelerated private sector wage agreements, easing labour market tensions. Fitch expects the resulting wage growth to be moderate and forecasts inflation to ease to average 1.5% in 2019, partly due to softening energy prices.
Falling Net External Debt; Vulnerable to External Shocks	Six years of current account surpluses have rapidly reduced net external debt to 24% of GDP ('A' median: 16%), but the export base still lacks diversification, making the economy vulnerable to terms of trade shocks and the krona sensitive to capital flows.
Fiscal Surpluses Reducing Debt Below Peers	Fitch forecasts the fiscal surplus to average 0.9% of GDP in 2018-2020 compared with a 1.4% deficit for the 'A' median. Gross general government debt is slightly lower than 'A' and 'AA' medians. We forecast it to fall to 36% of GDP in 2019 stabilising at 30% from 2021.
Banks Resilient to Tourism Slowdown	Banks are highly capitalised with low non-performing loans ratios. The direct impact of WowAir's collapse on banks is muted and banks should be resilient to the slowdown in tourism. However, the impact on the housing sector could pose larger problems for banks.

Qualitative Overlay (QO) ²		-1	A
Factors	Notch Adjustment	Long-Term FC IDR ³	
Structural	0	AAA	
Political Stability & Capacity		AA+	
Financial Sector Risks		AA	
Business Environment		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	-1	BB-	
External Financing Flexibility		B+	
External Debt Sustainability		B	
Vulnerability to Shocks		B-	
Total QO Adjustment	-1	CCC+/CCC/CCC-	
		C	
		RD	
		D	

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

Rating Sensitivities	
Positives	
Sustained Fall in Public Debt	A sustained fall in the public debt ratio, supported by prudent fiscal policy.
Improvement in External Position	Sustained improvement in the external balance sheet and increased resilience of the economy to external shocks.
Negatives	
Economic Downturn Affecting Banks	A sustained and sharper-than-expected economic downturn, affecting the banking sector (eg 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		54.7	10.01				
Composite governance indicators	Latest, percentile	19.6	92.8	6.9	58.2	75.0	84.6
GDP per capita	Latest, percentile	13.6	94.7	4.2	49.5	65.8	81.1
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	6.5	0.0	0.0	0.0	0.0	0.0
Broad money (% of GDP)	Latest	2.1	41.1	1.0	60.0	86.8	97.4
Macroeconomic		10.5	-0.89				
Real GDP volatility (standard deviation)	10-year	5.4	4.1	-1.1	3.0	2.6	2.2
CPI (%) - yoy change in annual average	3 year centred avg	2.5	0.2	0.0	3.4	2.3	2.3
Real GDP growth (%)	3 year centred avg	2.7	3.1	0.3	3.6	3.8	2.4
Public finances		16.7	-1.10				
Gross general govt debt (% of GDP)	3 year centred avg	7.9	38.8	-0.8	35.8	41.7	39.0
General govt interest (% of Revenue)	3 year centred avg	4.0	7.5	-0.3	7.1	4.8	4.0
General govt budget balance (% of GDP)	3 year centred avg	3.2	0.7	0.0	-2.3	-2.2	-0.5
Public foreign-currency debt (% of GGGD)	3 year centred avg	1.5	11.0	0.0	35.3	13.6	0.8
External finances		18.1	0.00				
Reserve currency (share in global FX) ⁵	Declining weight	7.5	0.0	0.0	0.0	0.0	0.0
Sovereign net foreign assets (% of GDP)	3 year centred avg	5.8	15.3	0.2	2.6	11.2	4.3
Commodity dependence (% of CXR)	Latest	1.7	37.6	-0.2	20.8	11.4	15.7
Reserves (months of CXP) [for RC = 0 only]	Latest	1.1	6.1	0.1	4.9	3.6	1.6
External interest service (% of CXR)	3 year centred avg	1.2	4.0	-0.1	4.3	2.4	4.8
CAB + Net FDI (% of GDP)	3 year centred avg	0.8	2.8	0.0	0.4	2.6	0.5
Intercept term ¹			3.94				
Total		100	11.96 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.

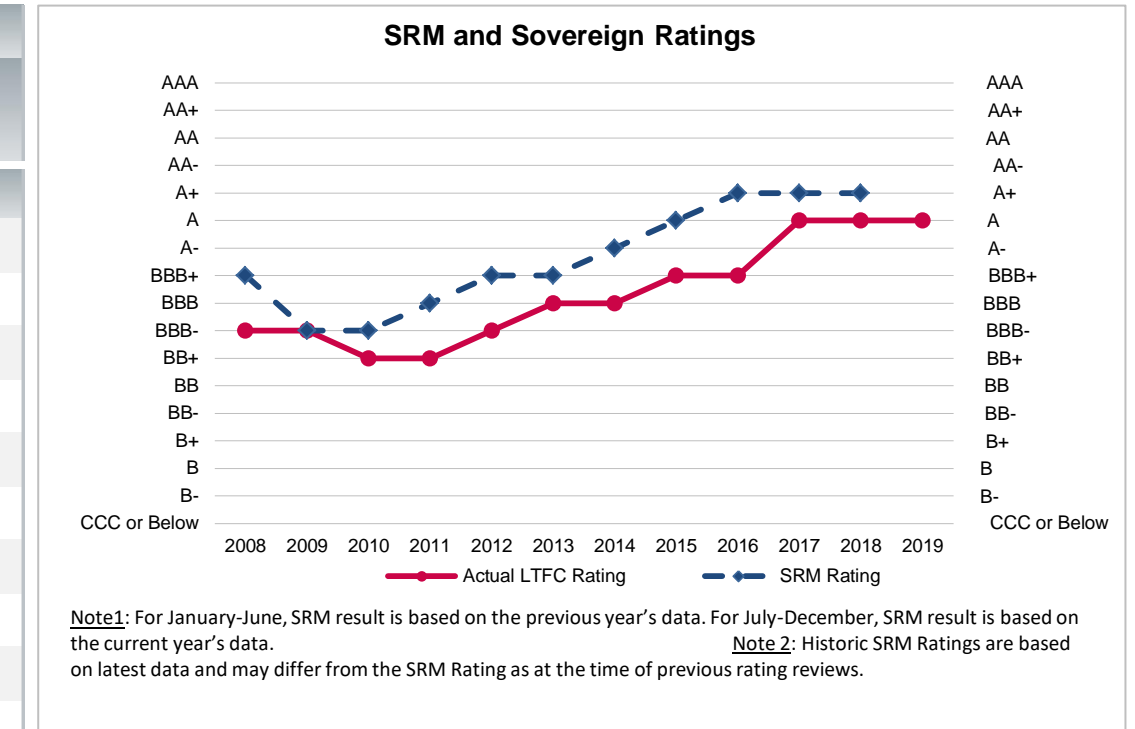
³ Sovereign Rating Committee can override SRM predicted rating if a marginal change in the Total result leads to a notch change which is judged to be temporary.

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
	Saudi Arabia
	Slovakia
A	Iceland
	Chile
	Japan
	Ras Al Khaimah
A-	Latvia
	Lithuania
	Malaysia
	Poland
	Slovenia
	Spain



Forecast Summary Tables					
Indicator	2016	2017	2018	2019f	2020f
Real GDP growth (%)	6.6	4.6	4.6	0.0	2.5
CPI (%) - yoy change in annual average	0.8	-1.6	0.7	1.5	2.0
Unemployment rate (%)	3.0	2.8	3.0	3.3	3.5
Short-term interest rate (annual avg%)	5.5	4.8	4.0	3.8	4.2
General govt budget balance (% of GDP)	12.4	0.5	1.1	0.6	0.8
Gross general govt debt (% of GDP)	51.2	43.1	37.7	35.7	32.7
Current account balance (% of GDP)	7.5	3.6	2.9	2.5	2.5
Net external debt (% of GDP)	31.9	30.9	24.4	19.5	14.1
Official international reserves (USDbn)	7.2	6.6	6.3	6.3	6.4
Nominal GDP (USDbn)	20.6	24.5	25.9	25.0	25.3
Exchange rate per USD (end-year)	112.82	104.42	116.33	122.70	122.70

Credit-Relevant ESG Derivation

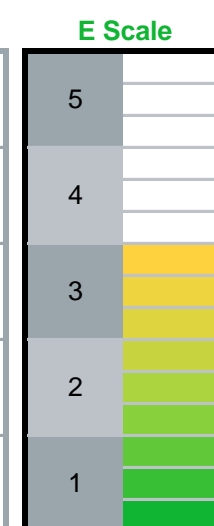
Iceland has 2 ESG key rating drivers, 2 ESG rating drivers and 9 ESG partial rating drivers

- ➔ Political stability, including divisions and vested interests, is a key rating driver for Iceland, as reflected in the World Bank Governance Indicators having the highest weight in Fitch's Sovereign Rating Model.
- ➔ Government effectiveness, control of corruption, rule of law and regulatory quality are key rating drivers for Iceland, as reflected in the World Bank Governance Indicators having the highest weight in Fitch's Sovereign Rating Model.
- ➔ Social stability, voice and accountability are rating drivers for Iceland, as reflected in the World Bank Governance Indicators having the highest weight in the Sovereign Rating Model.
- ➔ Willingness to service and repay debt is a rating driver for Iceland, as for all sovereigns.
- ➔ Iceland's tourism is a key service export sector and relies heavily on preservation of its natural surroundings. Mismanagement of the natural environment and tourism capacity could result in a shock to this key export sector.
- ➔ Iceland is in a active volcanic area and has experienced disruptions to tourism and its economy from volcanic activity in recent years, which is relevant to the rating. A shock to the export sector could emanate from a severe volcanic event.

			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



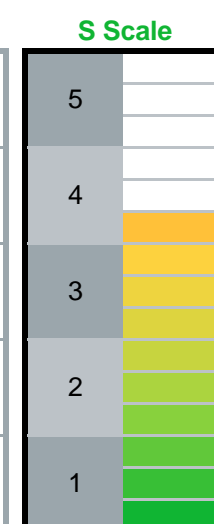
How to Read This Page

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	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

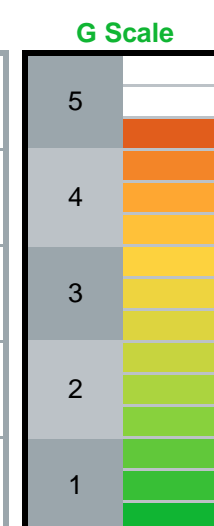


The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general 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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