

Iceland

Key Rating Drivers

Sizeable Debt Decline: The Positive Outlook reflects Iceland’s strengthened public finances. Fitch Ratings projects that general government debt will fall significantly in 2025 after the settlement of the Housing Financing Fund’s (HF Fund) liabilities and the full privatisation of Islandsbanki. Fitch forecasts debt will decline to 51.0% of GDP at end-2025, down by 8.4pp from its 2024 level. This marks a significant reduction from 65.7% of GDP in 2019, placing Iceland’s debt ratio below the current ‘A’ category peer median (forecast at 57.3% of GDP at end-2025).

HF Fund Settlement: The June completion of the HF Fund settlement between the government and key investors concludes the state’s long-standing plans to wind down the state-owned housing fund. The fund played a central role in providing affordable housing loans to residents but, after the 2008 financial crisis, faced increasing asset-liability mismatches and growing competition in the mortgage market. The settlement and privatisation of Islandsbanki (finalised in May) support investor confidence in Iceland’s financial sector and institutional framework.

Fiscal Consolidation: Iceland’s Medium-Term Fiscal Plan 2026-2030 targets a general government deficit that will be nearly balanced by 2027. The plan sets out measures over five years, aiming for expenditure consolidation of 1.8% of GDP and new revenue of 1% of GDP. Planned actions include merging public institutions, reviewing unemployment benefits, higher taxes on natural resources in the tourism and fishing sectors, and tightening tax exemptions.

Improving Fiscal Metrics: Fitch forecasts the fiscal deficit will narrow to 1.1% of GDP by 2027, from 1.5% in 2025. The slower deficit reduction relative to the government’s fiscal plan reflects Fitch’s more conservative view on spending efficiency measures and tax-raising efforts. Fitch’s fiscal baseline indicates the debt/GDP ratio will gradually decline, reaching 47.6% by 2027.

Economic Diversification: Progress continues in diversifying the economy into higher value-added sectors, such as pharmaceuticals, information and communications technology and biotechnology. According to the IMF, Iceland’s medium-term growth potential is about 2.4%, which is above that of most advanced economies.

Global Trade War: Direct trade with the US is limited, accounting for 11.5% of Iceland’s goods exports, although the marine sector is most affected, with 10%-14% of exports going to the US. Contagion risks through indirect channels remain significant. The EU is Iceland’s largest trading partner, representing 45% of Iceland’s total goods imports. Higher imported inflation from a global trade war could pose challenges for fiscal and monetary policy. Our baseline is for Iceland’s economy to grow by 1.6% in 2025 and 2.4% in 2026.

Tight Monetary Stance: The Central Bank of Iceland (CBI) faces a challenge in steering inflation and inflation expectations back to its 2.5%+/-1.5pp target amid strong domestic demand pressures. In July 2025, annual inflation was 4% (versus 4.6% in January). Fitch forecasts inflation to average 3.9% in 2025 and expects a pause in the monetary-easing cycle in 2H25. Since October 2024, the CBI has lowered its policy rate at consecutive meetings, from 9.25% to 7.5%. The monetary stance remains tight with a real policy rate of about 4%.

Strong External Buffers: A large pool of international FX reserves (22% of GDP, May 2025) and close to five months of imports coverage provide headroom against FX volatility risks. Iceland’s positive net international investment position (45.8% of GDP, 2024) stands out against the ‘A’ category peer group (current median negative 9% of GDP), a reflection of its significant private pension fund sector (assets of 170% of GDP).

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

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	Positive
Long-Term Local-Currency IDR	Positive

Highest ESG Relevance Scores	
Environmental	3
Social	4
Governance	5

Rating Derivation	
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
Source: Fitch Ratings	

Data	
	2025F
GDP (USDbn)	36
Population (m)	0.4
Source: Fitch Ratings	

Applicable Criteria	
Sovereign Rating Criteria (October 2024)	
Country Ceiling Criteria (July 2023)	

Related Research	
Fitch Revises Iceland's Outlook to Positive; Affirms at 'A' (August 2025)	
Global Economic Outlook (June 2025)	
Interactive Sovereign Rating Model	
Fitch Fiscal Index – Analytical Tool	
Click here for more Fitch Ratings content on Iceland	

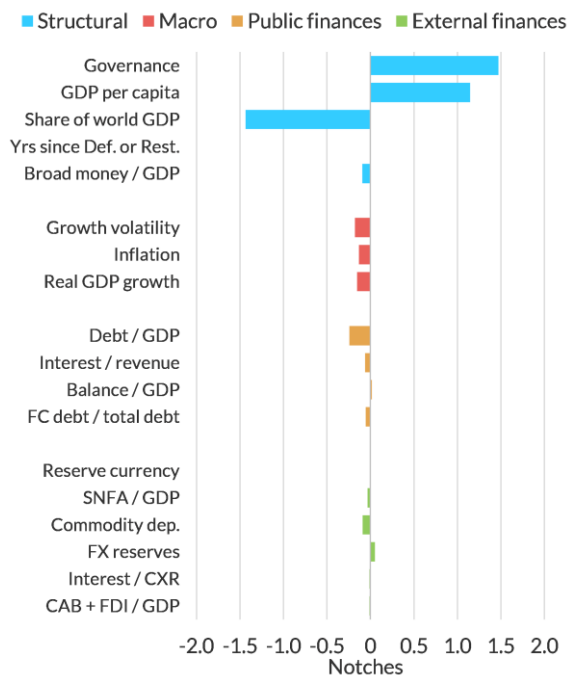
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Rating Summary

Long-Term Foreign-Currency Issuer Default Rating: A

Sovereign Rating Model: A

Contribution of variables, relative to A median



Qualitative Overlay: 0

Adjustments relative to SRM data and output

Structural features: No adjustment.

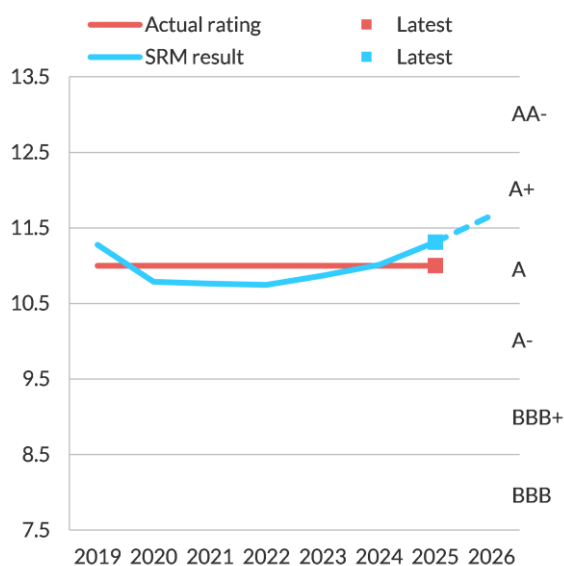
Macroeconomic outlook, policies and prospects: No adjustment.

Public finances: No adjustment.

External finances: No adjustment.

Note: See *Peer Analysis* table for summary data, including rating category medians; see the *Full Rating Derivation* table for detailed SRM data.
Source: Fitch Ratings

Sovereign Rating Model Trend



Recent Rating Derivation History

Review	LT FC	SRM	QO			
Date	IDR	Result ^{a,b}	S	M	PF	EF
Latest	A	A	0	0	0	0
14 Feb 25	A	A	0	0	0	0
30 Aug 24	A	A	0	0	0	0
1 Mar 24	A	A	0	0	0	0
1 Sep 23	A	A	0	0	0	0
10 Mar 23	A	A	0	0	0	0
16 Sep 22	A	A	0	0	0	0
18 Mar 22	A	A	0	0	0	0
24 Sep 21	A	A	0	0	0	0
26 Mar 21	A	A	0	0	0	0

^a The latest rating uses the SRM result for 2025 from the chart. This will roll forward to 2026 in July 2026.

^b Historical SRM results in this table may differ from the chart, which is based on our latest data, due to data revisions.

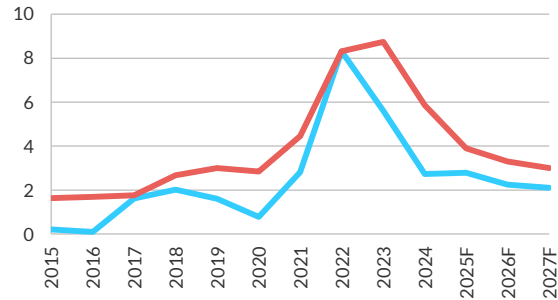
Abbreviations: LT FC IDR = Long-Term Foreign-Currency Issuer Default Rating; SRM = Sovereign Rating Model; QO = Qualitative Overlay

Source: Fitch Ratings

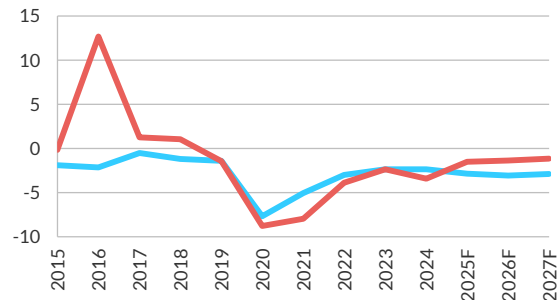
Peer Analysis

Iceland

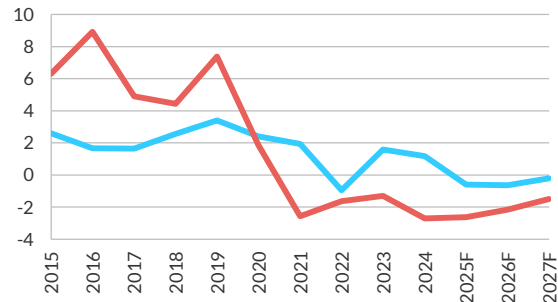
Consumer Price Inflation (Annual avg, %)



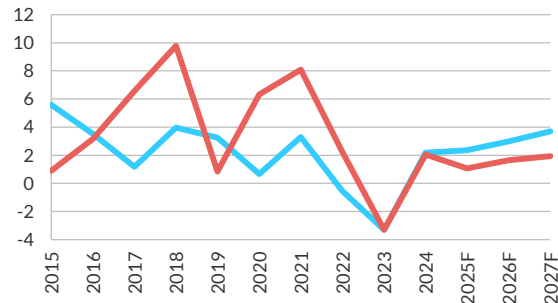
General Government Balance (% GDP)



Current Account Balance (% GDP)



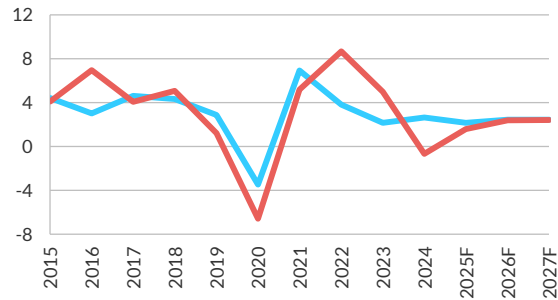
Real Private-Sector Credit Growth (%)



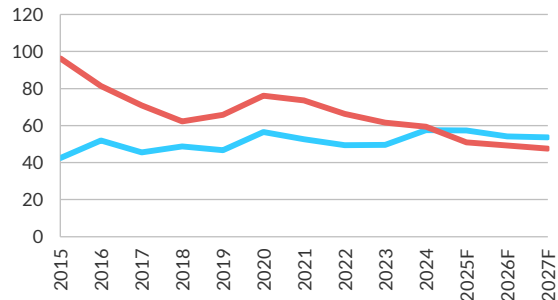
Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank

A Median

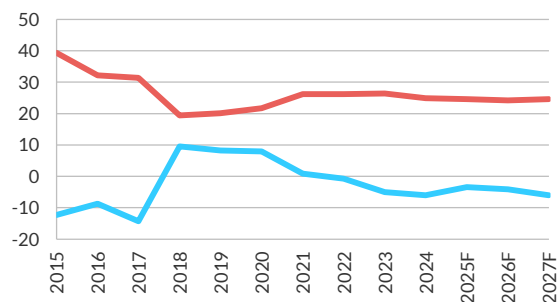
Real GDP Growth (%)



Gross General Government Debt (% GDP)

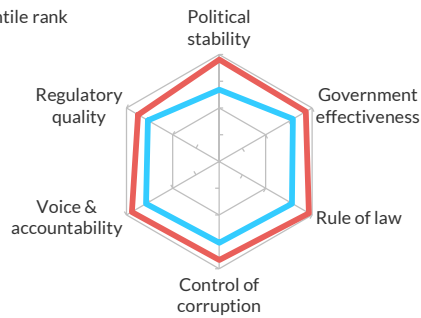


Net External Debt (% GDP)



Governance Indicators

Percentile rank



Peer Analysis

2025F ^a	Iceland	A median	AA median	AAA median
Structural features				
GDP per capita (USD) [SRM]	93,408	34,562	55,943	76,905
Share in world GDP (%) [SRM]	0.0	0.3	0.4	0.9
Composite governance indicator (percentile, latest) [SRM] ^b	93.1	74.5	84.2	93.8
Human development index (percentile, latest)	100.0	82.2	89.8	94.7
Broad money (% GDP) [SRM]	48.9	90.4	100.7	94.7
Private credit (% GDP, 3-year average)	90.2	73.1	106.9	123.1
Dollarisation ratio (% bank deposits, latest)	9.6	10.3	12.5	14.6
Bank system capital ratio (% assets, latest)	23.5	16.7	16.9	15.1
Macroeconomic performance and policies				
Real GDP growth (% , 3-year average) [SRM]	1.1	3.8	2.2	2.1
Real GDP growth volatility (complex standard deviation) [SRM]	3.9	3.0	2.5	2.0
Consumer price inflation (% , 3-year average) [SRM]	4.4	2.4	2.3	1.9
Unemployment rate (%)	3.7	6.3	5.0	5.3
Public finances (general government)^c				
Balance (% GDP, 3-year average) [SRM]	-2.1	-2.5	-1.2	-0.3
Primary balance (% GDP, 3-year average)	0.1	-0.7	0.2	1.1
Interest payments (% revenue, 3-year average) [SRM]	5.7	4.3	3.3	3.5
Gross debt (% revenue, 3-year average)	122.6	136.4	148.3	111.7
Gross debt (% GDP, 3-year average) [SRM]	53.2	42.5	43.6	44.4
Net debt (% GDP, 3-year average)	43.3	38.1	36.0	37.5
FC debt (% gross debt, 3-year average) [SRM]	14.8	7.9	0.5	0.0
External finances^c				
Current account balance (% GDP, 3-year average)	-2.5	1.3	1.5	5.5
Current account balance + net FDI (% GDP, 3-year avg.) [SRM]	-0.8	2.6	0.8	1.9
Commodity dependence (% CXR) [SRM]	36.2	11.8	15.6	14.4
Gross external debt (% GDP, 3-year average)	68.2	69.0	120.1	179.9
Net external debt (% GDP, 3-year average)	24.6	-7.7	-2.5	9.5
Gross sovereign external debt (% GXD, 3-year average)	17.3	21.8	17.6	11.6
Sovereign net foreign assets (% GDP, 3-year average) [SRM]	8.0	11.3	8.6	-3.4
External interest service (% CXR, 3-year average) [SRM]	5.0	2.3	4.2	7.4
Foreign-exchange reserves (months of CXP) [SRM]	5.3	4.4	2.7	1.5
Liquidity ratio	167.2	94.3	55.5	52.0

^a Three-year averages are centred on this year. Fitch does not forecast indicators labelled 'latest', meaning data may be lagging.

^b Composite of all six World Bank Worldwide Governance Indicators (see chart on the previous page).

^c See Appendix 2: Data Notes and Conventions for details of data treatment for public finances and external finances.

Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank, United Nations

Supplementary Information

BSI/MPI = -/1. About the BSI and MPI: Fitch's bank systemic indicator (BSI) equates to a weighted average Viability Rating. The macro-prudential risk indicator (MPI) focuses on one potential source of financial stress, ranging from '3' (high potential vulnerability to financial stress over the medium term based on trends in credit expansion, equity and property prices and real exchange rates) to '1' (low likelihood). For more information, refer to Fitch's most recent Macro-Prudential Risk Monitor report.

Year cured from the most recent default or restructuring event, since 1980 = No event.

The de facto exchange-rate regime, based on the latest IMF Annual Report on Exchange Arrangements and Exchange Restrictions report, is 'Floating'.

Rating Factors

Strengths

- World Bank Worldwide Governance Indicators (WBI) rank much higher than the 'A' and 'AA' rated medians and are in line with 'AAA' rated peers.
- GDP and income per capita are far higher than the 'A' and 'AA' medians.
- A large private pension fund sector (assets around 170% of GDP) offers strong support to the sovereign's fiscal financing flexibility. As of July 2025, domestic pension funds held 43% of government T-bonds.
- General government debt is projected to decline to 51% of GDP in 2025, falling below the projected 2025 median debt ratio of 'A' category peers (57.3% of GDP). Under Fitch's medium-term debt dynamics, this ratio remains on a downward trajectory.
- FX reserves were 4.6 months of external payments at end-2024, slightly above the historical median of 'A' category peers (4.4 months). The CBI's decision in April 2025 to conduct regular foreign-currency purchases in the foreign-exchange market will contribute to higher FX reserves this year.

Weaknesses

- Volatility of real GDP growth is higher than the 'A' category peer median, partly reflecting Iceland's small size and highly open economy. The lack of diverse economic sectors leaves the country vulnerable to sector-specific shocks.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Public Finances:** A marked deterioration in the debt/GDP trajectory, for example, from a sustained period of fiscal loosening.
- Macro:** A severe economic shock, for example, from a significant slowdown in the global economy.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Public Finances:** Increased confidence in a material and sustained decline in the government debt/GDP ratio.
- Macro/External:** Continued strong growth and evidence of economic diversification that reduces Iceland's vulnerability to external shocks.

Rating	Sovereign
A+	Belgium
	Estonia
	Malta
	Ras Al Khaimah
	Saudi Arabia
A	Iceland
	China
	Israel
	Japan
	Lithuania
	Slovenia
A-	Andorra
	Chile
	Croatia
	Cyprus
	Latvia
	Poland
	Portugal
	Slovakia
	Spain

Source: Fitch Ratings

Forecast Summary

	2022	2023	2024	2025F	2026F	2027F
Macroeconomic indicators and policy						
Real GDP growth (%)	8.7	5.0	-0.7	1.6	2.4	2.4
Unemployment (%)	3.8	3.4	3.4	3.7	3.7	3.5
Consumer price inflation (annual average % change)	8.3	8.7	5.9	3.9	3.3	3.0
Policy interest rate (annual average, %)	4.2	8.2	9.1	7.9	6.9	6.0
General government balance (% GDP)	-3.9	-2.4	-3.4	-1.5	-1.4	-1.1
Gross general government debt (% GDP)	66.4	61.5	59.3	51.0	49.2	47.6
ISK per USD (annual average)	135.3	137.9	138.0	133.1	129.0	132.5
Real private credit growth (%)	2.3	-3.3	2.0	1.1	1.6	1.9
External finance						
Merchandise trade balance (USDbn)	-1.5	-2.1	-2.3	-2.6	-2.7	-2.5
Current account balance (% GDP)	-1.6	-1.3	-2.7	-2.6	-2.2	-1.5
Gross external debt (% GDP)	75.2	75.9	71.1	68.7	64.8	64.9
Net external debt (% GDP)	26.2	26.4	24.9	24.6	24.2	24.6
External debt service (principal + interest, USDbn)	3.0	2.8	4.0	2.6	4.3	2.2
Official international reserves including gold (USDbn)	5.9	5.8	6.4	7.6	7.7	8.0
Gross external financing requirement (% int. reserves)	44.4	41.3	68.9	43.6	59.1	27.8
Real GDP growth (%)						
US	2.5	2.9	2.8	1.5	1.5	2.1
China	3.1	5.4	5.0	4.2	3.9	4.3
Eurozone	3.5	0.4	0.9	0.8	1.0	1.2
World	3.0	3.2	2.9	2.2	2.2	2.6
Oil (USD/barrel)	98.6	82.1	79.5	70.0	65.0	65.0

Source: Fitch Ratings

Sources and Uses

Public Finances (General Government)

(ISKbn)	2025	2026
Uses	202.3	325.0
Budget deficit	72.4	70.8
MLT amortisation	129.9	254.2
Domestic	94.2	212.1
External	35.7	42.1
Sources	202.3	325.0
Gross borrowing	771.0	338.4
Domestic	666.7	296.3
External	104.4	42.1
Privatisation	90.0	0.0
Other	-604.7	-23.4
Change in deposits	-54.0	10.0
(- = increase)		

Source: Fitch Ratings

External Finances

(USDbn)	2025	2026
Uses	2.8	4.5
Current account deficit	1.0	0.9
MLT amortisation	1.8	3.6
Sovereign	0.3	1.0
Non-sovereign	1.6	2.6
Sources	2.8	4.5
Gross MLT borrowing	3.1	4.4
Sovereign	1.4	1.3
Non-sovereign	1.8	3.1
FDI	0.9	0.9
Other	-0.2	-0.8
Change in FX reserves	-1.1	-0.1
(- = increase)		

Source: Fitch Ratings

Credit Developments

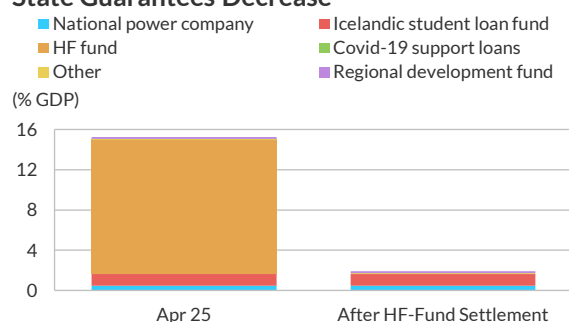
Settlement of Housing Financing Fund Liabilities Reduces Debt/GDP Ratio

Fitch projects Iceland's general government debt ratio will decline to 51% of GDP in 2025, down by 8.3pp from 2024. The expected decrease reflects two significant one-off developments: the settlement of securities issued by the Housing Financing Fund (HF Fund), expected to have a net impact of nearly 5pp on headline debt, and the sale of the state's remaining equity stake in Islandsbanki¹ (ISK90.6 billion; 1.9% of GDP).

The main elements of the fund settlement resulted in the state treasury issuing ISK540 billion government bonds (11.7% of GDP) to settle HF Fund liabilities and the delivery of foreign-currency deposits to investors equivalent to ISK55 billion, financed by May's Eurobond issuance². Additionally, the treasury will fully repay ISK238 billion in loans granted to it by the HF Fund in 2020 and 2021 (4.9% of GDP).

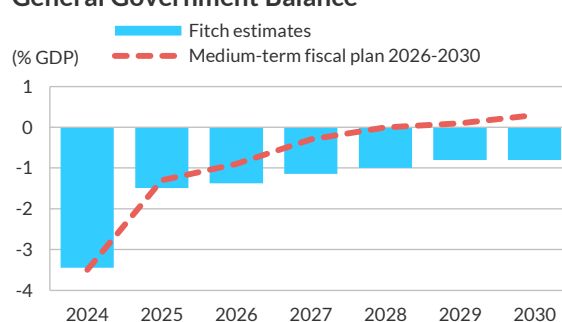
We expect general government debt, having peaked at 76.1% in 2020, to fall below the current projected median debt ratio for 'A' category peers (57.3% at end-2025), and under Fitch's current baseline, continue declining. This is supported by primary fiscal surpluses due to moderate fiscal consolidation and a positive GDP growth outlook.

State Guarantees Decrease



Source: Fitch Ratings, Iceland Debt Management

General Government Balance



Source: Fitch Ratings, Ministry of Finance

Commitment to Medium-Term Fiscal Consolidation

An objective of Iceland's Medium-Term Fiscal Plan (MTFP 2026-2030) is to bring the general government fiscal deficit close to balance by 2027. This is supported by a new stability rule that limits central government real (underlying) expenditure growth to 2% a year, based on the authorities' estimates of long-term economic growth capacity. Their aim is to keep the proportion of government expenditure-to-GDP stable. In early July, the stability rule became law.

The MTFP fiscal targets include expenditure consolidation of about 1.8% of GDP over four years through improved public procurement, merging of public institutions, and greater healthcare efficiency. The maximum eligibility period for unemployment benefits is also under review. The government's kilometre-based vehicle road levy and higher taxes on natural resources in tourism and fishing sectors are forecast revenue growth providers. Efforts to close tax loopholes and tighten tax exemptions are also planned. The authorities estimate these measures will raise revenue by about 1% of GDP by 2030.

Most key fiscal measures are under parliamentary review, but our projections do not include their full impact. Fitch's baseline is for the fiscal deficit to narrow to 1.1% of GDP by 2027, from 1.5% in 2025. The slower deficit reduction relative to the government's fiscal plan reflects our more conservative view on savings from spending efficiency measures and tax efforts. We expect real underlying expenditure growth will be kept in line with the adopted stability rule, but savings from consolidation of public institutions, concentrated in the latter half of the plan, may not fully meet the government's target. However, for revenue, Fitch recognises potential upside from the vehicle road levy, and approval of the Fishing Fee Bill on 14 July, which will raise fees for large fishing companies, while providing exemptions for smaller ones. This bill is a milestone in the tax structure of one of Iceland's most important industries and could double medium-term fishing fee revenue — up to ISK20 billion (0.4% of GDP).

¹ In May 2025, the government fully privatised Islandsbanki, divesting its remaining 42.5% stake (total value of ISK90.6 billion), and marking a significant milestone in the normalisation and confidence in Iceland's domestic banking sector since the 2008 financial crisis.

² On 20 May 2025, Iceland issued a EUR750 million Eurobond (ISK109 billion equivalent) with a fixed coupon of 2.625% and a five-year maturity, priced at a re-offer yield of 2.672%. The proceeds will be used to strengthen the foreign-exchange reserves of the CBI and to refinance existing Eurobonds.

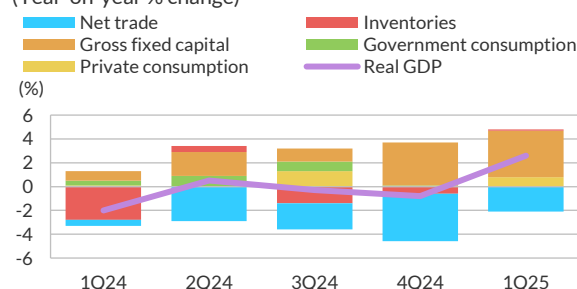
Global Trade Environment Poses a Risk to GDP Outlook

Fitch projects Iceland's economy will expand by 1.6% in 2025 and 2.4% in 2026, driven by strong domestic demand. Higher real wages and lower inflation will support private consumption, with consumer sentiment above 2024 levels. Households' card payments data also indicate strong activity, up 3.9% year on year in May. Gradual monetary easing will support investment, and we expect real credit growth to businesses to remain stable. Strong business investment in 2025 should offset weaker residential and public investment activity. Growth in innovation-based sectors, particularly data centres, led to double-digit gains in gross fixed capital investment in 4Q24 and 1Q25.

Uncertainties related to global trade protectionism remain a sizeable risk to our macroeconomic baseline. Iceland's limited direct trade with the US³ means we assess these risks through indirect channels a greater risk factor. Iceland's import dependency is high, evident by its structural goods trade deficit. The risk of higher imported inflation from an escalated global trade war could hinder fiscal and monetary policy implementation.

Contributions to Real GDP

(Year-on-year % change)



Source: Fitch Ratings, Central Bank of Iceland, Statistics Iceland

Business Investment Activity

Excluding energy-intensive industry, ships and aircraft



Source: Fitch Ratings, Statistics Iceland, CBI

Monetary Policy Remains Tight

We believe the CBI faces a challenge in adjusting monetary policy to steer inflation and inflation expectations back to target of 2.5% +/- 1.5pp. Since October 2024, the CBI has lowered its key policy rate at consecutive monetary policy committee meetings, from a peak of 9.25% to 7.5%.

We expect the CBI to pause the monetary easing cycle in 2H25. With a real policy rate of about 4%, the monetary stance remains tight. Although inflation of imported goods has eased to below target, inflationary pressures on domestic goods and services have persisted, in part reflecting higher wage growth from collective agreements reached in late 2024 and early 2025. Inflation pressures from domestic demand remain an uncertainty, given that consumption has been more resilient than expected despite high real interest rates.

Positive Medium-Term Growth Prospects

The IMF forecasts Iceland's medium-term potential growth at about 2.4%. The country has made progress through various R&D tax incentives in diversifying the economy into higher-value and less cyclically sensitive sectors, such as pharmaceuticals, biotechnology and ICT. This has also supported growth of traditional sectors, particularly aquaculture, in which Iceland has a strong global competitive advantage. Iceland's abundance of renewable energy sources, cool climate and competitive energy prices have also attracted investment in energy-intensive data centres.

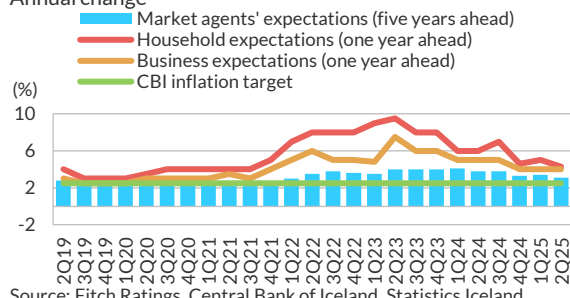
As of end-2024, the share of high value-added services exports reached 21% of total services exports, up from 14% in 2018. These services relate to R&D, ICT, intellectual property and financial services. As a share of total exports (goods and services), the contribution remains small, about 10%.

Traditional sectors (processed aluminium, tourism and marine products) still represent the bulk of Iceland's exports (on average 67%). This limited diversification leaves Iceland exposed to specific trade shocks. Additionally, structural challenges to growth potential persist. Iceland's economy and population are both small. Capacity constraints will eventually result in moderating population growth.

³ Sources: Iceland Statistics and The Observatory of Economic Complexity (OEC). The US accounts for about 11.5% of Iceland's total goods exports (2024). The majority (55%) of Iceland's exports to the US are marine products. The second-largest share (14%) is medical appliances. Of Iceland's total world exports of marine products, the US accounts for 10%-14% of the market.

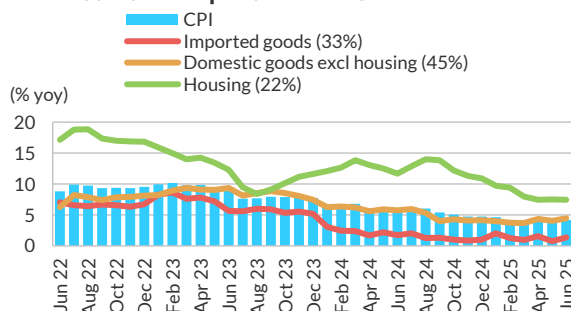
Inflation Expectations

Annual change



Source: Fitch Ratings, Central Bank of Iceland, Statistics Iceland

Domestic and Imported Prices



Source: Fitch Ratings Central Bank of Iceland, Statistics Iceland

Sound Financial Sector

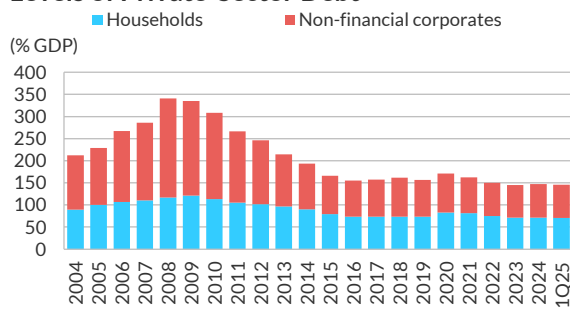
The Icelandic banking sector remains well capitalised with strong liquidity buffers. As end-2024, domestic systemically important banks (D-SIBs) averaged a 23.5% capital ratio and a liquidity coverage ratio of 170% well above minimum requirements. Despite high interest rates, private-sector arrears remain low, with the ratio of non-performing loans at 1.0% for households and 2.6% for corporates.

We believe macro financial stability oversight is sufficiently prudent. Conservative limits on loan-to-value and debt service to income ratios help mitigate risks stemming from mortgage debt servicing. A above trend volume of savings has boosted households' balance sheets. At 136%, household debt to disposable income compares favourably with relevant peers (151% in Sweden, 168% in Denmark, 180% in the Netherlands⁴).

Imbalances in the residential real estate sector persist but are moderating, with a cooling of price growth and an increase in property transaction periods. That said, the CBI has kept the sector's countercyclical capital buffer at 2.5%.

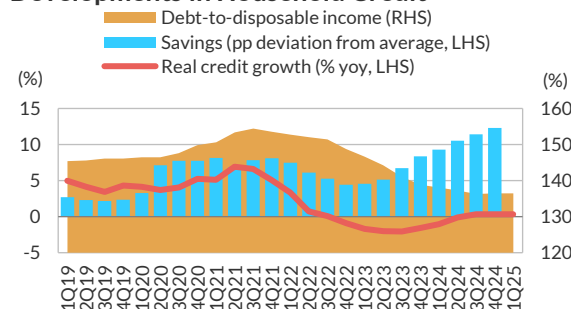
Despite global financial market volatility, the authorities have maintained robust liquidity buffers. In April, the CBI initiated regular foreign-currency purchases in the interbank foreign-exchange market. The main objective is to increase foreign-exchange reserves. At end-1Q25, international reserves totalled ISK865 billion, or 116% of the IMF reserve adequacy metric. The central bank aims to maintain minimum reserves at 120% of the adequacy metric.

Levels of Private-Sector Debt



Source: Fitch Ratings, Central Bank of Iceland

Developments in Household Credit



Source: Fitch Ratings, Central Bank of Iceland

⁴ Source: Eurostat. Gross debt-to-income ratio of households (2024)

Public Debt Dynamics

According to Fitch's baseline projections, general government debt is gradually declining. Risks to medium-term debt sustainability are low. In 2025, the stock-flow adjustment reflects the impact on debt following the settlement of HHF liabilities and the privatisation of Islandsbanki.

Debt Dynamics – Fitch's Baseline Assumptions

	2023	2024	2025	2026	2027	2028	2029
Gross general government debt (% of GDP)	61.5	59.3	51.0	49.2	47.6	46.1	44.4
Primary balance (% of GDP)	0.4	-0.9	1.0	0.3	0.3	0.1	0.1
Real GDP growth (%)	5.0	-0.7	1.6	2.4	2.4	2.5	2.5
Average nominal effective interest rate (%)	9.4	7.6	7.5	7.4	7.2	6.9	6.7
ISK/USD (annual average)	137.9	138.0	133.1	129.0	132.5	135.0	135.0
GDP deflator (%)	5.4	5.9	3.7	3.5	2.8	2.5	2.5
Stock-flow adjustments (% of GDP)	0.0	0.0	-6.3	-0.4	-0.5	-0.4	-0.4

Source: Fitch Ratings

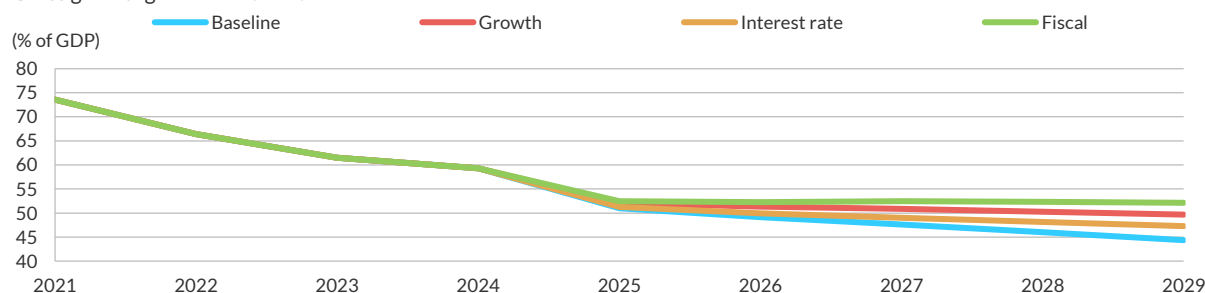
Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 2.0% lower than baseline
Interest rate	Marginal interest rate 250bp higher
Fiscal	Persistent headline fiscal deficits at 3.0% of GDP

Source: Fitch Ratings

Sensitivity Analysis

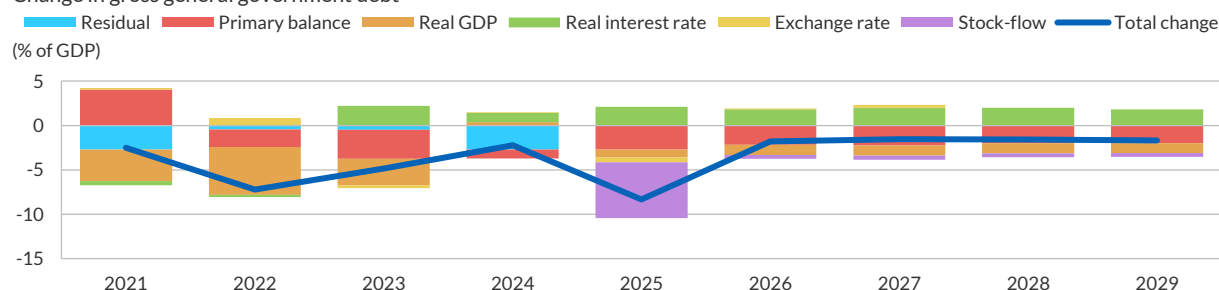
Gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

Baseline Scenario: Debt Creating Flows

Change in gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

About the Public Debt Dynamics

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.

Data Tables

General Government Summary

(% GDP)	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Revenue	41.6	41.6	40.7	42.3	42.9	43.3	43.5	43.4	43.4
Expenditure	43.0	50.4	48.7	46.1	45.2	46.7	45.0	44.7	44.5
o/w interest payments	1.7	1.7	1.7	2.9	2.7	2.5	2.4	2.4	2.4
Interest payments (% revenue)	4.0	4.0	4.1	6.8	6.4	5.9	5.6	5.6	5.6
Primary balance	0.2	-7.1	-6.3	-1.0	0.4	-0.9	1.0	0.3	0.3
Overall balance	-1.4	-8.8	-8.0	-3.9	-2.4	-3.4	-1.5	-1.4	-1.1
Gross government debt	65.7	76.1	73.6	66.4	61.5	59.3	51.0	49.2	47.6
% of government revenue	158.1	182.8	180.8	157.1	143.5	137.0	117.3	113.5	109.7
Issued in domestic market	59.6	67.8	63.3	58.4	55.4	52.1	42.8	41.5	40.2
Issued in foreign markets	6.1	8.2	10.3	8.0	6.1	7.2	8.2	7.8	7.4
Local currency	59.6	67.8	63.3	58.4	55.4	52.1	42.8	41.5	40.2
Foreign currency	6.1	8.2	10.3	8.0	6.1	7.2	8.2	7.8	7.4
Central government deposits	8.3	16.4	14.3	11.0	8.7	9.8	10.4	9.6	9.1
Net government debt	57.4	59.7	59.3	55.4	52.8	49.6	40.6	39.6	38.5
Financing	8.8	8.0	3.9	2.4	3.4	1.5	1.4	1.1	1.1
Domestic borrowing	6.6	2.5	5.1	2.7	-0.6	-6.8	1.1	0.9	0.9
External borrowing	1.8	2.7	-1.5	-0.8	1.3	2.0	-0.1	-0.3	-0.3
Other financing	0.4	2.8	0.3	0.5	2.7	6.3	0.4	0.6	0.6
Change in deposits (- = increase)	-7.9	0.4	1.1	1.2	-1.5	-1.1	0.2	0.0	0.0
Privatisation	0.0	1.7	1.9	0.0	0.0	1.9	0.0	0.0	0.0
Other	8.2	0.7	-2.7	-0.6	4.2	5.5	0.2	0.6	0.6

Source: Fitch Ratings, Ministry of Finance

Balance of Payments

(USDbn)	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Current account	1.8	0.4	-0.7	-0.5	-0.4	-0.9	-1.0	-0.9	-0.6
% GDP	7.4	1.9	-2.6	-1.6	-1.3	-2.7	-2.6	-2.2	-1.5
Goods	-0.8	-0.6	-1.0	-1.5	-2.1	-2.3	-2.6	-2.7	-2.5
Services	2.2	0.5	0.7	1.6	2.4	2.0	2.2	2.3	2.4
Primary income	0.6	0.7	0.0	-0.3	-0.4	-0.3	-0.2	-0.2	-0.2
Secondary income	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	1.0	1.3	-1.4	-0.1	-0.2	0.3	-2.1	-1.0	-0.9
Direct investment	0.7	0.5	-0.5	-1.1	-1.3	-0.1	-0.9	-0.9	-0.9
Portfolio investment	0.7	1.0	0.0	1.1	2.2	0.4	-0.3	0.5	0.7
Derivatives	0.0	0.0	0.1	0.1	-0.1	0.0	0.1	0.1	0.1
Other investments	-0.5	-0.2	-1.1	-0.3	-1.0	0.0	-0.9	-0.6	-0.8
Net errors and omissions	-0.3	0.7	0.4	-0.1	-0.1	2.0	0.0	0.0	0.0
Change in reserves (+ = increase)	0.6	-0.2	1.1	-0.5	-0.4	0.7	1.1	0.1	0.3
International reserves, incl. gold	6.8	6.4	7.1	5.9	5.8	6.4	7.6	7.7	8.0
Liquidity ratio (%)	212.5	259.0	318.5	196.9	162.9	141.5	167.2	143.2	198.4
Memo									
Current external receipts (CXR)	12.4	8.5	10.8	14.7	15.5	15.8	16.1	16.7	17.6
Current external payments (CXP)	10.5	8.1	11.5	15.2	16.0	16.7	17.0	17.6	18.2
CXR growth (%)	-9.3	-31.1	27.2	35.6	5.7	1.6	1.9	3.9	5.3
CXP growth (%)	-15.5	-23.0	41.9	31.8	5.1	4.6	2.2	3.1	3.6
Gross external financing requirement	-0.2	0.9	1.6	3.1	2.4	4.0	2.8	4.5	2.1
% International reserves	-2.8	13.1	24.6	44.4	41.3	68.9	43.6	59.1	27.8
Net external borrowing	-0.9	-0.8	2.6	1.2	1.8	0.5	1.3	0.8	0.7

Source: Fitch Ratings, IMF

External Debt and Assets

(USDbn)	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Gross external debt	19.5	19.7	21.9	22.0	24.1	23.7	25.0	25.8	26.5
% GDP	78.1	89.4	83.6	75.2	75.9	71.1	68.7	64.8	64.9
% CXR	157.6	231.2	202.3	149.4	154.8	150.2	155.3	154.2	150.5
Short-term debt (% GXD)	6.9	7.9	9.1	12.0	11.5	11.4	11.4	11.4	11.4
By debtor									
Sovereign	3.0	2.8	3.7	2.8	2.7	3.5	4.6	4.9	4.9
Monetary authorities	0.5	0.4	0.7	0.6	0.6	0.6	0.6	0.6	0.6
General government	2.5	2.4	3.0	2.2	2.1	2.9	4.0	4.3	4.4
Banks	5.5	5.9	6.4	6.9	7.2	6.4	6.5	6.7	6.9
Other sectors	10.9	11.1	11.8	12.2	14.2	13.8	13.9	14.1	14.6
Gross external assets (non-equity)	14.5	14.9	15.1	14.3	15.7	15.4	16.0	16.1	16.4
Sovereign	6.8	6.4	7.1	5.9	5.8	6.4	7.6	7.7	8.0
International reserves, incl. gold	6.8	6.4	7.1	5.9	5.8	6.4	7.6	7.7	8.0
Other sovereign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	3.1	3.4	3.3	3.5	4.5	3.6	3.8	3.9	4.1
Other sectors	4.7	5.2	4.7	5.0	5.6	5.7	5.9	6.0	6.1
Net external debt	5.0	4.8	6.9	7.7	8.4	8.3	9.0	9.6	10.0
% GDP	20.1	21.7	26.2	26.2	26.4	24.9	24.6	24.2	24.6
Sovereign	-3.8	-3.7	-3.4	-3.1	-3.1	-3.0	-3.0	-2.8	-3.0
Banks	2.5	2.6	3.1	3.5	2.9	3.2	4.0	4.3	4.6
Other sectors	6.2	5.9	7.1	7.3	8.6	8.1	8.0	8.1	8.5
International investment position									
Assets	32.6	35.8	43.1	37.1	43.3	49.3	-	-	-
Liabilities	27.1	27.5	31.8	30.1	32.4	34.0	-	-	-
Net	5.5	8.2	11.3	7.1	10.9	15.3	-	-	-
Net sovereign	3.8	3.7	3.4	3.1	3.1	3.0	3.0	2.8	3.0
% GDP	15.0	16.6	12.9	10.7	9.8	8.9	8.2	6.9	7.4
External debt service (principal + interest)	2.1	1.7	1.2	3.0	2.8	4.0	2.6	4.3	2.2
Interest (% CXR)	3.7	4.9	2.6	2.5	4.9	5.8	4.8	4.3	4.1

Source: Fitch Ratings, central bank, IMF, World Bank

Full Rating Derivation

Long-Term Foreign-Currency Issuer Default Rating (SRM + QO)

A

Sovereign Rating Model					Applied Rating ^d			A
					Model Result and Predicted Rating		11.32 = A	
Input Indicator	Weight (%)	2024	2025	2026	Adjustment to Final Data	Final Data	Coefficient	Output (notches)
Structural features								9.26
Governance indicators (percentile)	22.0	n.a.	93.1	n.a.	-	93.1	0.079	7.35
GDP per capita (USD)	11.8	n.a.	93,408	n.a.	Percentile	96.6	0.037	3.54
Nominal GDP (% world GDP)	14.3	n.a.	0.03	n.a.	Natural log	-3.4	0.640	-2.19
Most recent default or restructuring	4.5	n.a.	None	n.a.	Inverse 0-1 ^a	0.0	-1.791	0
Broad money (% GDP)	1.1	n.a.	46.7	n.a.	Natural log	3.8	0.145	0.56
Macroeconomic performance, policies and prospects								-1.21
Real GDP growth volatility	4.5	n.a.	3.9	n.a.	Natural log	1.4	-0.710	-0.97
Consumer price inflation	3.6	5.9	3.9	3.3	3-yr avg. ^b	4.4	-0.069	-0.30
Real GDP growth	1.8	-0.7	1.6	2.4	3-yr avg.	1.1	0.057	0.06
Public finances								-1.67
Gross general govt debt (% GDP)	9.0	59.3	51.0	49.2	3-yr avg.	53.2	-0.023	-1.22
General govt interest (% revenue)	4.6	5.9	5.6	5.6	3-yr avg.	5.7	-0.044	-0.25
General govt fiscal balance (% GDP)	2.1	-3.4	-1.5	-1.4	3-yr avg.	-2.1	0.039	-0.08
FC debt (% of total general govt debt)	3.0	12.1	16.8	15.6	3-yr avg.	14.8	-0.008	-0.12
External finances								0.06
Reserve currency (RC) flexibility	7.2	n.a.	0.0	n.a.	RC score 0 - 4.5 ^c	0.0	0.494	0
SNFA (% of GDP)	7.5	8.9	8.2	6.9	3-yr avg.	8.0	0.011	0.09
Commodity dependence	1.1	n.a.	36.2	n.a.	Latest	36.2	-0.004	-0.13
FX reserves (months of CXP)	1.3	n.a.	5.3	n.a.	n.a. if RC score > 0	5.3	0.024	0.13
External interest service (% CXR)	0.2	5.8	4.8	4.3	3-yr avg.	5.0	-0.004	-0.02
CAB + net FDI (% GDP)	0.3	-2.5	-0.1	0.2	3-yr avg.	-0.8	0.003	-0.00
Intercept Term (constant across all sovereigns)								4.87

^a Inverse 0-1 scale, declining weight; ^b of truncated value (2%-50%); ^c Declining weight; ^d Sovereign rating committee can override SRM Predicted Rating if a marginal change in the Model 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. Please refer to the Rating Action Commentary for further information when the Applied Rating differs from the Predicted Rating.

Note: This table contains data as at the date of the most recent rating action. There may be minor differences to data presented elsewhere in this report, which may have been updated where appropriate, for example in the event of subsequent data releases.

Source: Fitch Ratings

Qualitative Overlay (Notch Adjustment, Range +/-3)	0
Structural features	0
Macroeconomic outlook, policies and prospects	0
Public finances	0
External finances	0

Source: Fitch Ratings

About the SRM and QO

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a Long-Term Foreign-Currency Issuer Default Rating (LT FC IDR). Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

Supplementary Ratings

Local-Currency Rating

Iceland's credit profile does not support an uplift of the Long-Term Local-Currency (LT LC) IDR above the LT FC IDR. In Fitch's view, neither of the two main factors supporting the upward notching of the LT LC IDR cited in the criteria is present, namely: strong public finance fundamentals relative to external finance fundamentals; and previous preferential treatment of LC creditors relative to FC creditors.

Country Ceiling

The Country Ceiling for Iceland is 'A+', 1 notch above the LT FC IDR. This reflects moderate constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of +2 notches above the IDR. Fitch's rating committee applied an offsetting -1 notch qualitative adjustment to this, under the Balance of Payments Restriction pillar, reflecting Iceland's short record of full liberalisation from capital controls that were in place during 2008-2021.

Overall Country Ceiling Uplift (CCM + QA, notches)				+1
Country Ceiling Model (CCM, notches)				+2
Pillar I = Balance of payments restrictions				+3
Current account restrictions (% of 40)	Latest	10.0		+3
Capital account restrictions (% of 69)	Latest	15.9		+3
Combined pillar II & III incentives score				+1
Pillar II = Long-term institutional characteristics				+2
Governance (WB WGI)	Latest	93.1		+3
International trade				+1
Trade openness	2021-25 avg	47.5		+2
Volatility of change in CXR (across 10yrs)	2025	18.4		0
Export share to FTA partners	2021-25 avg	85.0		+3
International financial integration^a	2021-25 avg	46.0		+2
Pillar III = Near-term risks				+1
Macro-financial stability risks				+1
Composite inflation risk score				+1
Volatility of CPI (across 10yrs)	2025	2.5		+2
Recent CPI peak	2021-25 max	8.7		+3
Cumulative broad money growth	2020-25 chg %	65.7		+1
Volatility of change in REER (across 10yrs)	2025	6.9		+1
Dollarisation	Most recent	9.6		+3
Exchange rate risks				+2
Net external debt (% of CXR)	2023-25 avg	54.1		+1
Exchange rate regime	Latest	Floating		+3
Qualitative Adjustment (QA, notches)				-1
Pillar I = Balance of payments restrictions				-1
Pillar II = Long-term institutional characteristics				0
Pillar III = Near-term macro-financial stability risks				0

^a Data for international financial integration are the average of private external assets (% of GDP) and private external debt (% of GDP).

Source: Fitch Ratings

Full Rating History

Date	Foreign-Currency Rating			Local-Currency Rating			Country Ceiling
	Long-Term	Short-Term	Outlook/Watch	Long-Term	Short-Term	Outlook/Watch	
08 Aug 25	A	F1+	Positive	A	F1+	Positive	A+
18 Mar 22	A	F1+	Stable	A	F1+	Stable	A+
22 May 20	A	F1+	Negative	A	F1+	Negative	A+
24 May 19	A	F1+	Stable	A	F1+	Stable	A+
08 Dec 17	A	F1	Stable	A	F1	Stable	A
07 Jul 17	A-	F2	Positive	A-	F1	Positive	A-
13 Jan 17	BBB+	F2	Positive	BBB+	F2	Positive	BBB+
22 Jul 16	BBB+	F2	Stable	BBB+	F2	Stable	BBB+
24 Jul 15	BBB+	F2	Stable	A-	-	Stable	BBB+
30 Jan 15	BBB	F3	Positive	BBB+	-	Positive	BBB
14 Feb 13	BBB	F3	Stable	BBB+	-	Stable	BBB
17 Feb 12	BBB-	F3	Stable	BBB+	-	Stable	BBB-
16 May 11	BB+	B	Stable	BBB+	-	Stable	BB+
05 Jan 10	BB+	B	Negative	BBB+	-	Negative	BB+
23 Dec 09	BBB-	F3	Negative	A-	-	Negative	BBB-
08 Oct 08	BBB-	F3	Watch Negative	A-	-	Watch Negative	BBB-
30 Sep 08	A-	F2	Watch Negative	AA	-	Watch Negative	A
01 Apr 08	A+	F1	Negative	AA+	-	Negative	AA-
15 Mar 07	A+	F1	Stable	AA+	-	Stable	AA-
21 Feb 06	AA-	F1+	Negative	AAA	-	Negative	AA
17 Jun 04	AA-	F1+	Stable	AAA	-	Stable	AA
31 Mar 03	AA-	F1+	Stable	AAA	-	Stable	-
15 Feb 02	AA-	F1+	Negative	AAA	-	Negative	-
26 Feb 01	AA-	F1+	Stable	AAA	-	-	-
21 Sep 00	AA-	F1+	Stable	AAA	-	Stable	-
03 Feb 00	AA-	F1+	-	AAA	-	-	-

Source: Fitch Ratings

Appendix 1: Environmental, Social and Governance (ESG)

Credit Relevance Scores

General Issues	Key Sovereign Issues	SRM	QO	Score ^a
Environmental (E)				
GHG Emissions and Air Quality	Emissions and air pollution as a constraint on GDP growth	2	2	2
Energy Management	Energy resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	2	3
Water Resources and Management	Water resource availability and management as a constraint on GDP growth	2	2	2
Biodiversity and Natural Resource Management	Natural resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	3	3
Natural Disasters and Climate Change	Impact of adverse climate trends, and likelihood of and resilience to shocks	3	3	3
Social (S)				
Human Rights and Political Freedoms	Social stability, voice and accountability, regime legitimacy	4	2	4 +
Human Development, Health and Education	Impact of human development, health and education on GDP per capita and GDP growth	3	2	3
Employment and Income Equality	Impact of unemployment and income equality on GDP per capita, GDP growth and political and social stability	3	2	3
Public Safety and Security	Impact of public safety and security on business environment and/or economic performance	3	2	3
Demographic Trends	Population decline or aging, rapidly rising youth population; pensions sustainability	3	2	3
Governance (G)				
Political Stability and Rights	Political divisions and vested interests; geo-political risks including conflict, security threats and violence; policy capacity: unpredictable policy shifts or stasis	5	2	5 +
Rule of Law, Institutional & Regulatory Quality, Control of Corruption	Government effectiveness, control of corruption, rule of law, regulatory quality	5	2	5 +
International Relations and Trade	Trade agreements, membership of international organisations, bilateral relations; sanctions or other costly international actions	3	2	3
Creditor Rights	Willingness to service and repay debt	4	2	4 +
Data Quality and Transparency	Availability, limitations and reliability of economic and financial data, including transparency of public debt and contingent liabilities	3	2	3

Source: Fitch Ratings

About ESG Credit Relevance Scores

The scores signify the credit relevance of the respective E, S and G issues to the sovereign entity's credit rating, according to the following scale:

- 5 – Highly relevant to the rating, a key rating driver with a high weight.
- 4 – Relevant to the rating, a rating driver.
- 3 – Relevant, but only has an impact on the entity rating in combination with other factors.
- 2 – Irrelevant to the entity rating but relevant to the sector (sovereigns).
- 1 – Irrelevant to the entity rating and irrelevant to the sector (sovereigns).

The score for each 'General Issue' is comprised of a component SRM and QO score, and is simply the higher of the two. SRM scores are fixed across all sovereigns as the weights in the SRM are the same for all sovereigns; QO component scores vary across all sovereigns.

All scores of '4' or '5' result in a negative impact on the rating, unless indicated otherwise. Where a positive impact is occurring, the score of '4' or '5' is appended with a '+' symbol. Scores of '3', '2' and '1' do not have a direction of impact assigned.

Please refer to [ESG Relevance Scores for Sovereigns](#) for further information on the framework, including 'Sovereign Rating Criteria References' (which identify specific potentially related SRM variables and QO factors for each 'General Issue').

Credit-Relevant ESG Derivation

Iceland has an ESG Relevance Score of '5[+]' for Political Stability and Rights as WBGI have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Iceland has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Iceland has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional and Regulatory Quality and Control of Corruption as WBGI 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. As Iceland has a percentile rank above 50 for the respective Governance Indicators, this has a positive impact on the credit profile.

Iceland has an ESG Relevance Score of '4[+]' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the WBGI is relevant to the rating and a rating driver. As Iceland has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

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 Iceland, as for all sovereigns. As Iceland has a record of 20+ years without a restructuring of public debt and captured in our SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Appendix 2: Data Notes and Conventions

Acronyms

Acronyms used in the above table and elsewhere in report are: Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Current Account Balance (CAB), Foreign Direct Investment (FDI), World Bank Worldwide Governance Indicators (WBI), Sovereign Rating Model (SRM), Qualitative Overlay (QO). For a full list of indicator definitions, please refer to the most recent Sovereign Data Comparator.

Medians

Medians underlying the SRM relative to rating category chart on the Rating Summary page and as reported in the Peer Analysis table on page 4 are long-term historical medians. These are based on actual data since 2000 for all sovereign-year observations when the sovereign was in the respective rating category at year-end. Current year ratings and data are excluded.

Chart medians on page 3 are 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.

Notes for Iceland

All data are on a calendar-year basis, which aligns with the domestic fiscal year for this sovereign.

Public finances data referenced in this report relate to the consolidated general government, as per our principal approach, unless specifically noted otherwise where cited.

The external balance-sheet data referenced in this report are derived from the international investment position dataset, as per our principal approach.

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For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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