MOODY'S
INVESTORS SERVICE

ISSUER IN-DEPTH
14 August 2023

Send Your Feedback

RATINGS

Iceland

	Foreign Currency	Local Currency
Gov. Bond Rating	A2/POS	A2/POS
Country Ceiling	Aa2	Aa1

TABLE OF CONTENTS

OVERVIEW AND OUTLOOK 1
CREDIT PROFILE 2
Economic strength score: baa1 2
Institutions and governance strength score: aa2 7
Fiscal strength score: a2 11
Susceptibility to event risk score: a 15
ESG considerations 19
Scorecard-indicated outcome 21
Comparatives 22
DATA, CHARTS AND REFERENCES 23

Contacts

Kathrin Muehlbronner +44.20.7772.1383
Senior Vice President
kathrin.muehlbronner@moodys.com

Lenaic Couderc +44.20.7772.1799
Associate Analyst
lenaic.couderc@moodys.com

Dietmar Hornung +49.69.70730.790
Associate Managing Director
dietmar.hornung@moodys.com

Marie Diron +44.20.7772.1968
MD-Global Sovereign Risk
marie.diron@moodys.com

Government of Iceland - A2 positive

Annual credit analysis

OVERVIEW AND OUTLOOK

The credit profile of Iceland reflects the economy's flexibility, wealth, competitiveness and favourable demographics, all of which support its long-term growth prospects. The economy has demonstrated its resilience to the twin shocks of the pandemic and the war in Ukraine (Ca stable), rebounding strongly on an effective policy response and a recovery in tourism. The country has significantly strengthened its fiscal framework as well as banking supervision and regulation, which, together with a track record of effective macroeconomic management since 2008, demonstrates the strength of its institutions.

Iceland's main credit weaknesses are the economy's small size and concentration in a limited number of sectors, which increase its vulnerability to sector-specific shocks. Despite the ongoing diversification efforts, Iceland remains particularly vulnerable to shocks to its tourism sector, which accounted for a third of exports and 9% of domestic employment in 2022. Moreover, despite the recent and expected fiscal improvements, the Icelandic government's debt and affordability metrics compare unfavourably with those of peers.

The positive outlook reflects the government's rapid progress in reducing its budget deficit and bringing the public debt on a downward trajectory, which increases the probability of a faster-than-expected rebuilding of fiscal buffers. Also, strong growth prospects of key economic sectors and the government's ongoing efforts to further diversify the economic base may reduce the impact of potential shocks. We could upgrade the rating if Iceland continues to reduce its budget deficit and public debt ratio at the expected pace.

An early consensual resolution of the HF Fund (A2 positive) guarantee would help accelerate the decline in debt and would also be credit positive. Progress in curbing inflation and re-anchoring inflation expectations while ensuring continued robust economic growth would support our assessment of Iceland's strong institutions. Further evidence that the government's economic diversification efforts are helping reduce growth volatility would also support a higher rating.

We would likely change the outlook back to stable if our expectations for rebuilding of fiscal and economic buffers do not materialise. Downward rating pressure could arise if the authorities deviated significantly from their current medium-term fiscal consolidation plans, resulting in a substantial increase in the public debt ratio.

This credit analysis elaborates on Iceland's credit profile in terms of economic strength, institutions and governance strength, fiscal strength and susceptibility to event risk, which are the four main analytic factors in our Sovereigns Rating Methodology.

CREDIT PROFILE

Our determination of a sovereign's government bond rating is based on the consideration of four rating factors: Economic strength, institutions and governance strength, fiscal strength and susceptibility to event risk. When a direct and imminent threat becomes a constraint, that can only lower the scorecard-indicated outcome. For more information, please see our Sovereigns Rating Methodology.

Economic strength score: baa1

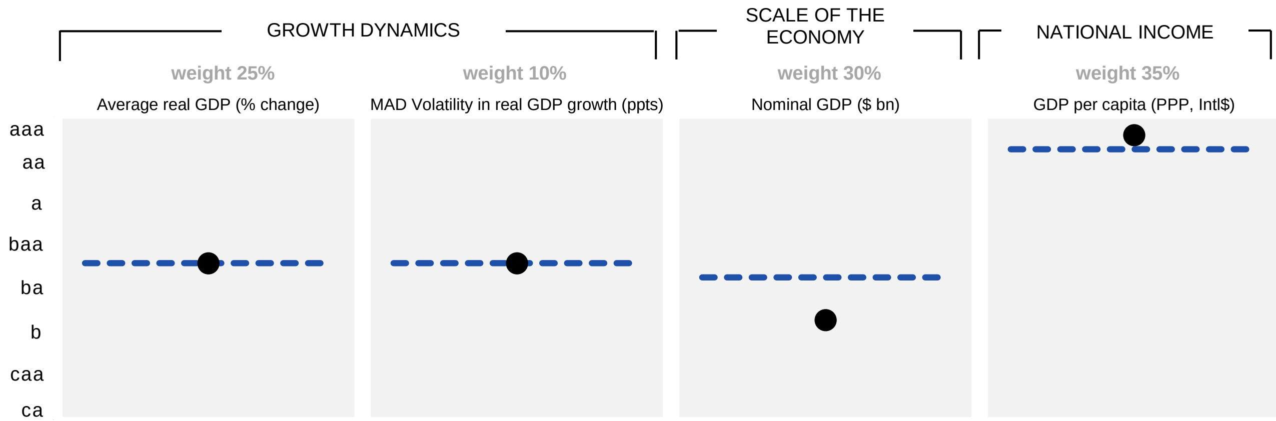
Factor 1: Overall score

Scale		aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca	
	+								Final													-

Factor 1: Sub-scores

Iceland	baa1

Score for Iceland — Median of countries with A2 rating



Economic strength evaluates the economic structure, primarily reflected in economic growth, the scale of the economy and wealth, as well as in structural factors that point to a country's long-term economic robustness and shock-absorption capacity. Adjustments to the economic strength factor score most often reflect our judgement regarding the economy's flexibility, diversification, productivity and labour supply.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

We assess Iceland's economic strength at "baa1", which balances the country's small size and volatile economic growth with its very high wealth levels and strong competitiveness in its core industries. Other sovereigns with the same assessment of economic strength include Lithuania (A2 stable) and Chile (A2 stable).

Exhibit 1

Peer comparison table factor 1: Economic strength

	Iceland A2/POS	baa1 Median	Chile A2/STA	Lithuania A2/STA	Malta A2/STA	Slovakia A2/NEG	Czech Republic Aa3/NEG	Kazakhstan Baa2/STA
Final score	baa1		baa1	baa1	baa1	baa1	a3	baa2
Initial score	baa1		a3	a3	baa1	baa1	a2	a2
Nominal GDP ($ billion)	27.8	76.5	300.7	70.2	17.7	115.3	290.9	223.6
GDP per capita (PPP, Intl$)	66,512.4	39,490.0	29,083.1	47,107.3	58,072.1	39,490.0	49,421.0	30,543.9
Average real GDP (% change)	2.4	2.7	2.1	2.7	4.1	2.0	1.5	3.4
MAD Volatility in real GDP growth (ppts)	1.2	1.2	0.9	1.1	2.1	1.2	0.6	0.6

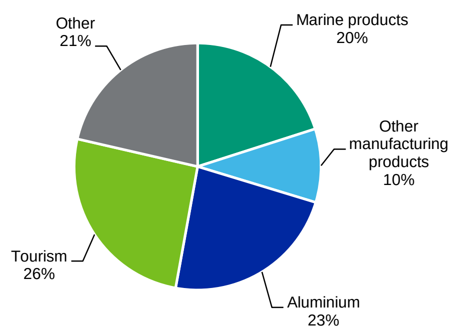
Sources: National authorities, IMF and Moody's Investors Service

Iceland's wealth and competitiveness mitigate the economy's small size and concentration

With nominal GDP of $28 billion in 2022, Iceland's economy is one of the smallest among the sovereigns we rate. Limited diversification of exports, combined with relatively high trade openness, leads to high volatility in growth and vulnerability to sector-specific and external shocks. Exports and imports account for over 90% of GDP, and three quarters of the country's export revenue comes from three sectors: tourism (26% of total export revenue), marine products (20% of total export revenue) and aluminium (23% of total export revenue) (see Exhibit 2). For example, in 2020, the economy contracted more than 7% as a result of the pandemic-induced shock to the tourism industry, although the authorities' effective policy response (including a rapid vaccination rollout) helped the economy recover swiftly.

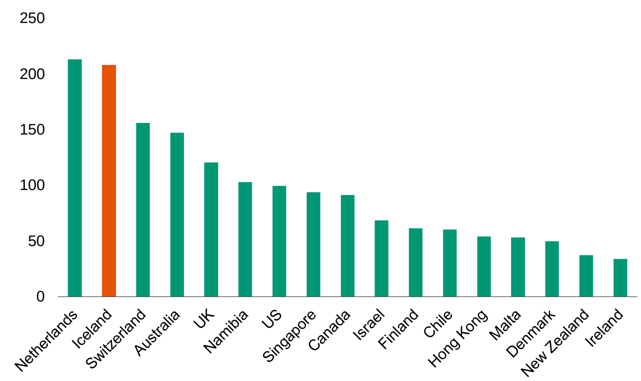
These challenges are mitigated by very high income levels and wealth buffers, which are also comparatively evenly distributed.[1] GDP per-capita on a purchasing power parity basis was $66,512 in 2022, much higher than the median for A-rated sovereigns of $47,107 and the 18th highest among our rated sovereigns. In addition, household assets in the form of pensions amount to around 180% of GDP, much higher than that of most other OECD countries (see Exhibit 3). Households also reduced leverage substantially after the banking crisis in 2008, with debt at around 79% of GDP as of 2022. Together with high income levels, household assets are an important shock absorber, as demonstrated during the banking crisis in 2008 and again during the pandemic when the government allowed temporary withdrawals from third-pillar pension savings.

Exhibit 2
Three sectors dominate Iceland's exports
Exports of goods and services by sector (2022)



Sources: Statistics Iceland and Moody's Investors Service

Exhibit 3
Households have significant wealth buffers
Pension assets in 2021 (as a percentage of GDP)



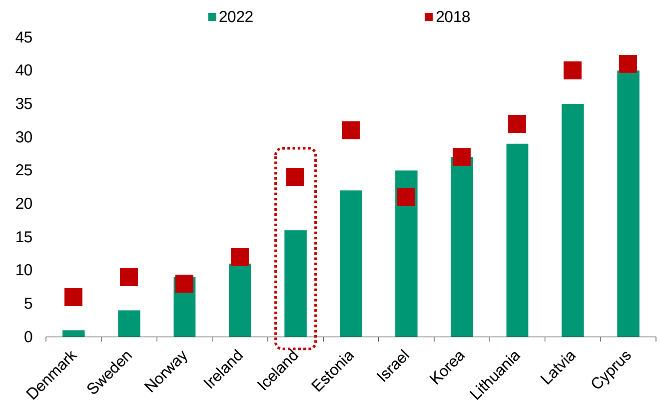
Sources: OECD and Moody's Investors Service

Iceland's economy is also highly competitive, as demonstrated by its 16th rank in the World Competitiveness Index (see Exhibit 4). The country fares particularly well compared with peers on institutions, technological readiness, educational environment and labour market efficiency. Iceland's demographic profile is more favourable than that of many advanced economies because of long working lives, higher fertility rates, high participation of women in the labour force and high net migration. We project Iceland's old-age dependency ratio — defined as the ratio of population aged 65+ years divided by the population aged 20-64 years — will remain lower than all EU (Aaa stable) sovereigns over the next two decades (see Exhibit 5).[2]

Exhibit 4

Despite its small size, Iceland is highly competitive compared with peers

World Competitiveness Index (rank)

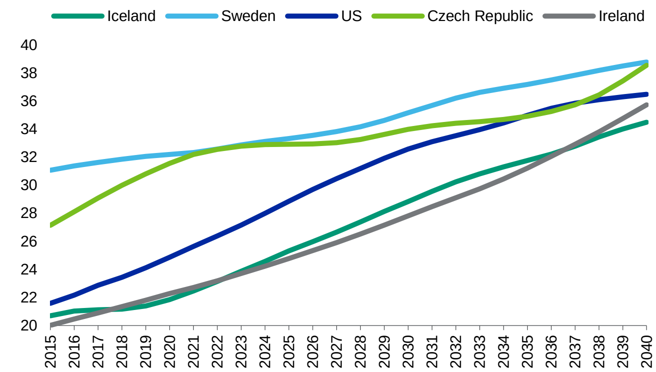


Sources: IMD and Moody's Investors Service

Exhibit 5

Iceland is less exposed to population ageing than peers

Old-age dependency ratio (65+/20-64)



Sources: United Nations and Moody's Investors Service

Stronger-than-expected resilience to shocks and solid growth potential

The Icelandic economy has dealt very well with the two major external shocks — the pandemic and the Russia-Ukraine war — in the past few years, which reflects its stronger-than-expected resilience. Real GDP growth averaged 5.4% over 2021-22, supported by very strong growth in exports, investment and private consumption. Iceland's energy independence shielded it from the direct economic impact of Russia's invasion of Ukraine, although inflation accelerated on house prices.

We expect the economy to continue to grow at a robust rate of around 4% in 2023, supported by stable growth in tourism demand. The tourism sector is on track for its strongest year ever, with a projection of up to 2.4 million visitors compared with the previous peak of 2.3 million in 2018, despite the economic slowdown in key markets. Tourist arrivals and foreign credit card spending in real terms have exceeded their pre-pandemic levels in the first half of 2023. In contrast, fish and aluminium exports will contribute less to growth in 2023, although revenue will be strong because of high prices.

We expect private consumption to slow significantly over the course of 2023, following strong growth in the last two years driven by high wage increases and policy support measures. The government is tightening both monetary and fiscal policies in an effort to curb inflation. A tighter policy should also help reduce import demand, which has been very high.

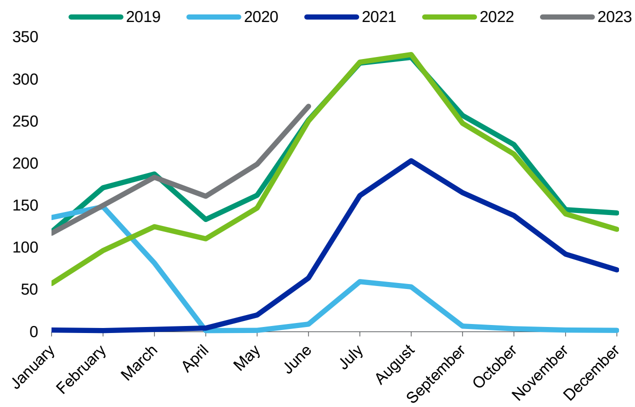
However, still-solid nominal wage growth and a strong labour market will provide a buffer to consumption. Labour demand remains high and vacancies are near historical highs. In 2022, labour market needs were met by a substantial increase in foreign workers. The population grew by 3.1%, marking the largest increase on record, and will expand significantly again in 2023 to meet still-strong labour demand, in particular in the tourism sector.

For 2024, we expect growth to return closer to potential, which we estimate at around 2.5%, reflecting tighter monetary and fiscal policies. The Central Bank of Iceland (CBI) has raised its key policy rate by a cumulative 800 basis points (bps) since May 2021 with further tightening likely in the coming months (see more detailed discussion in the Institutions and Governance section).

Exhibit 6

Tourism activity exceeds pre-pandemic levels

Tourist arrivals (in thousands)

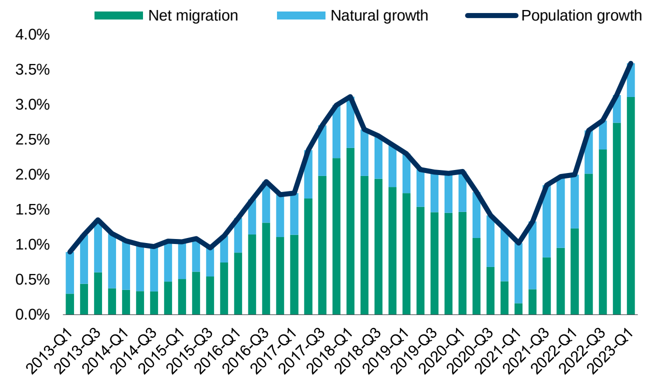


Sources: Statistics Iceland and Moody's Investors Service

Exhibit 7

Higher labour demand has been met by increased immigration

Population (year-on-year change in percentage terms)



Sources: Statistics Iceland and Moody's Investors Service

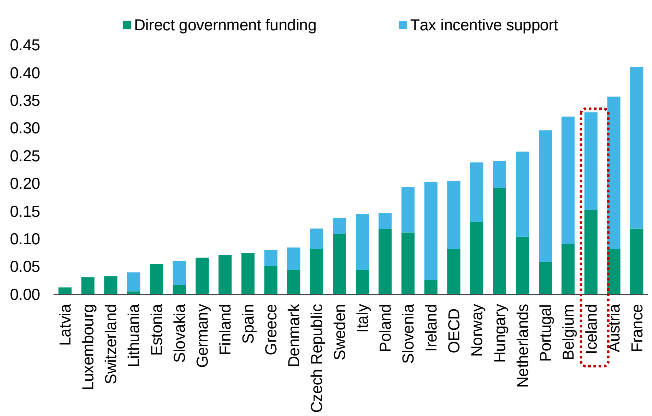
Economic diversification could reduce the impact of future external shocks

The Icelandic authorities have been pursuing efforts to further diversify the economy for years, in particular by offering generous tax credits for businesses' R&D spending, which is among the highest in OECD countries (see Exhibit 8). The first results of these efforts are becoming visible, specifically in the biotechnology, aquaculture, and information and communications technology sectors. Iceland has a tradition in the first two, with exports growing vigorously in both sectors over the past decade (see Exhibit 9). It is also exploring new climate mitigation technologies, with Icelandic company Carbfix operating the world's largest carbon capture plant.

Exhibit 8

The government is supporting diversification through R&D incentives

Government R&D spending as % of GDP (2021)

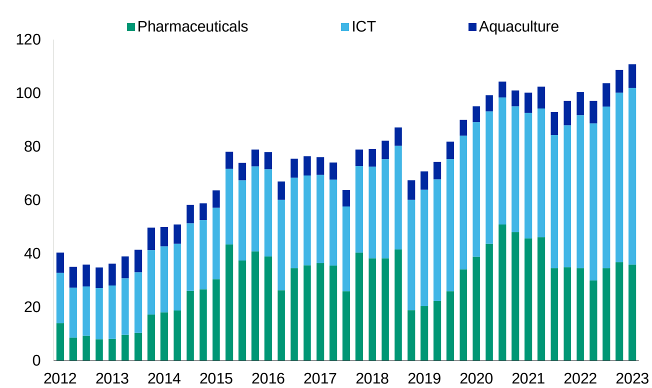


Sources: OECD and Moody's Investors Service

Exhibit 9

Some sectors offer diversification opportunities

Four-quarter rolling exports (ISK billion)



Sources: Statistics Iceland and Moody's Investors Service

Icelandic and Norwegian companies are also using Iceland's already very strong competitive position to expand into farmed fish, which will help counteract variations in fishing quotas that can affect GDP growth. The aquaculture sector, although still small, has continued to grow in recent years, and significant investment is underway to increase the productive capacity. According to a recent study,[3] the sector could grow tenfold over the next decade if the current expansion plans are successfully implemented, and contribute up to 10% of exports (from 3% in 2022).

The IMF and the OECD point to other areas that could help Iceland further raise its growth potential, in particular by further reducing regulatory barriers, improving the business climate and ensuring that Iceland reaps the full benefits of high immigration. The OECD estimates that reducing administrative burdens would raise per capita GDP by 1 percentage point (pp) over a 10-year period.

Institutions and governance strength score: aa2

Institutions and governance strength evaluates whether the country's institutional features are conducive to supporting a country's ability and willingness to repay its debt. A related aspect is the government's capacity to conduct sound economic policies that foster economic growth and prosperity. Institutions and governance strength is most often adjusted for the track record of default, which can only lower the final score.
Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Our assessment of Iceland's institutions and governance strength at "aa2" is supported by the country's strong scores in the Worldwide Governance Indicators (WGIs), and a track record of effective macroeconomic management to restore economic and financial stability after the banking crisis. The reforms introduced after the crisis have strengthened the macro-policy mix, and include enhanced financial regulation and supervision in line with global best practices, abolition of all capital flow restrictions and an improved fiscal framework. Other sovereigns with the same assessment of institutional strength include Austria (Aa1 stable) and Ireland (Aa3 stable).

Exhibit 10

Peer comparison table factor 2: Institutions and governance strength

	Iceland A2/POS	aa2 Median	Austria Aa1/STA	France Aa2/STA	Ireland Aa3/STA	Taiwan, China Aa3/STA	Germany Aaa/STA	Chile A2/STA
Final score	aa2		aa2	aa2	aa2	aa2	aa1	aa3
Initial score	aa2		aa2	aa2	aa2	aa2	aa1	aa3
Quality of legislative & executive institutions	aa	aa	aa	aaa	aa	aa	aaa	aa
Strength of civil society & judiciary	aaa	aaa	aaa	aaa	aaa	aa	aaa	a
Fiscal policy effectiveness	aa	aa	aa	a	aa	aa	aaa	a
Monetary & macro policy effectiveness	a	aa	aa	aa	aa	aa	aa	aa
Fiscal balance/GDP (3-year average)	-2.6	-2.6	-2.5	-4.8	1.6	-2.0	-2.3	-0.7
Average inflation (% change)	4.4	2.9	3.5	2.5	2.7	1.3	3.1	4.4
Volatility of inflation (ppts)	2.0	2.1	2.3	1.7	2.5	1.0	2.5	2.9

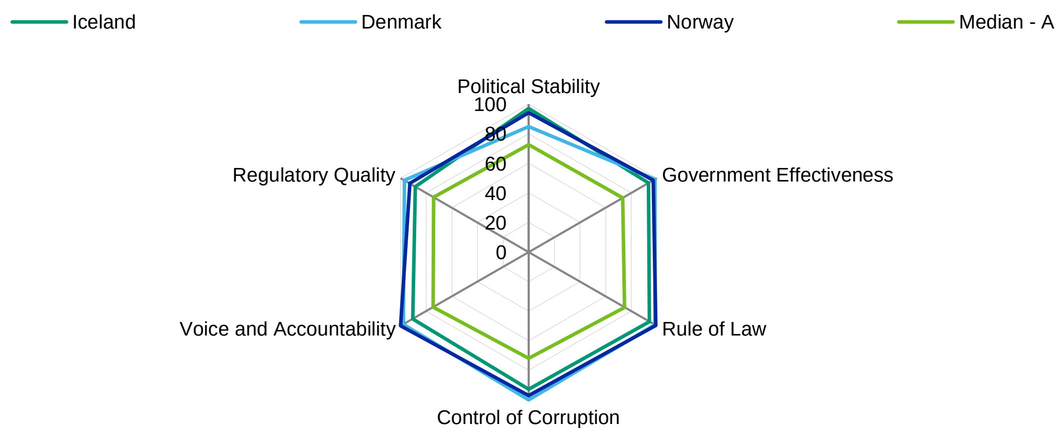
Sources: National authorities, IMF and Moody's Investors Service

Robust survey scores demonstrate strength of the institutions

Iceland ranks highly compared with A-rated peers on the WGIs, supporting our strong assessment of the country's institutions. It ranks in the 88th percentile of the WGI measure of government effectiveness and regulatory quality, reflecting its highly professional and capable public administration, as well as a transparent and predictable legislative framework, underpinning our “aa” assessment for the quality of legislative and executive institutions. However, key economic data series can be subject to large revisions.

Iceland's rankings in the 93rd percentile for control of corruption and 94th percentile for rule of law reflect limited instances of corruption and the fact that its society acts as an effective check on the exercise of government power, supporting our “aaa” assessment for the strength of the civil society and the judiciary. Iceland also scores very strongly on political stability given its long tradition of broad cooperation and consensus on economic matters between the government and employer and employee associations, which supports policy effectiveness.

Exhibit 11
Iceland's governance indicators rank above A-rated peers
Percentile rank among our rated sovereigns (2021)



Sources: Worldwide Governance Indicators and Moody's Investors Service

Following the collapse of the banking system in 2008, the authorities have made significant progress in bringing the economy, the financial system and public finances back onto a sustainable path. In conjunction with a three-year IMF Stand-By Arrangement and post-monitoring programmes, the authorities introduced a number of reforms, such as revised fiscal and monetary policy frameworks, a flexible exchange rate, and significant improvements to banking system supervision and regulation. In 2020, the central bank and the Financial Supervisory Authority were merged, with the aim to achieve greater efficiency, operational independence and powers in financial oversight and, in June 2021, all restrictions on the capital account were lifted.

The authorities have expanded the central bank's tool kit to limit the risks to financial stability from excessive flows, including transparent and clearly communicated foreign-currency interventions to smooth excessive krona volatility because of the small size of the foreign-currency market. Foreign-currency reserves are very large at around 18% of GDP in mid-2023 and in excess of the IMF's various reserve adequacy metrics.

Monetary policy framework has become more credible

The central bank has gained significant credibility following a major revision of the monetary policy framework and its governance and decision-making structure, mostly implemented by 2012. Iceland's inflation performance has significantly strengthened compared with that before the banking crisis, when the CBI rarely managed to meet its inflation target. However, as a small currency area, Iceland remains more exposed to inflationary shocks, which can sometimes impair monetary policy effectiveness. As a result, we score Iceland's monetary and macroeconomic policy effectiveness slightly weaker than highly rated peers at “a”.

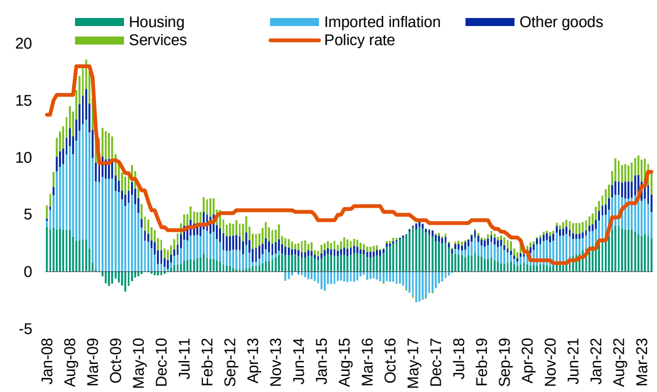
While the war in Ukraine and resulting energy price increases did not directly affect Iceland, consumer price inflation rose rapidly over the course of 2021 on the back of surging house prices after the pandemic. Since hitting a peak of 10.2% in February 2023, inflation started to slow thereafter; as of July 2023, consumer price inflation was 7.6%, arrested by aggressive monetary tightening.

The central bank has hiked its key policy rate by a cumulative 800 bps since May 2021 to currently 8.75%, and it maintains a tightening bias. The Financial Stability Committee also tightened macroprudential measures, including lowering the maximum loan-to-value (LTV) ratio on household mortgages to 80% from 85% and to 85% from 90% for first-time buyers, and capping the debt-service-to-income ratio at 35%, with a higher ratio of 40% for first-time buyers. The countercyclical capital buffer was raised to 2% in September 2022, and will be raised further to 2.5% in March 2024. In response to these measures, house price growth has moderated from its peak since the beginning of 2023 and lending to households has also started to lose steam, which indicates cooling demand for housing (see Exhibit 13). Risks of a disorderly correction are limited because of strong housing market fundamentals, including high population growth and supply shortages.

Exhibit 12

Headline inflation has started to cool, although some components are experiencing higher inflation

Consumer price index (percentage change) and contributions (pps)

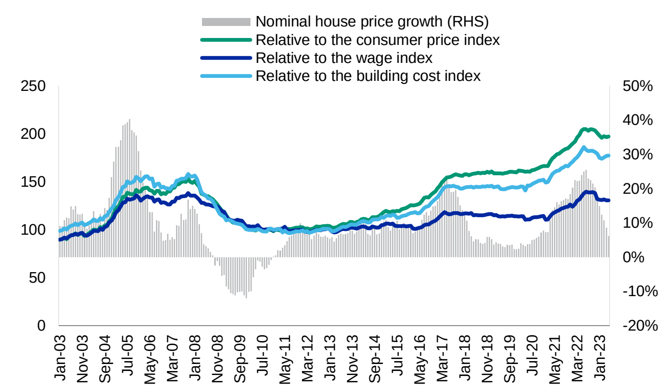


Sources: Central Bank of Iceland and Moody's Investors Service

Exhibit 13

Monetary policy tightening is starting to cool the housing market

House price index relative to macro fundamentals



Sources: Central Bank of Iceland and Moody's Investors Service

We expect further interest rate hikes in the coming months as inflation expectations have recently risen. Another reason for the continued tightening bias is the risk of a wage-price spiral. In 2022, social partners agreed on an interim one-year wage agreement given the then-high level of uncertainty. Upside surprises to inflation during the year could lead to higher wage demands in the next round of collective bargaining, which will start this autumn.

Strong (real) wage increases in the past have raised concerns over declining price competitiveness and an increasing misalignment between wages and productivity growth (see Exhibit 14). We generally consider the last three-year wage agreement from 2019 to have helped support private consumption during the pandemic but also to have contributed to rising inflation. The agreement included an innovative GDP bonus in an effort to link wage increases to per capita GDP growth, but it was poorly designed and resulted in a payout in 2022 even though GDP per capita was still below pre-pandemic levels. Both the OECD and the IMF recommend linking future wage increases more directly to productivity growth.

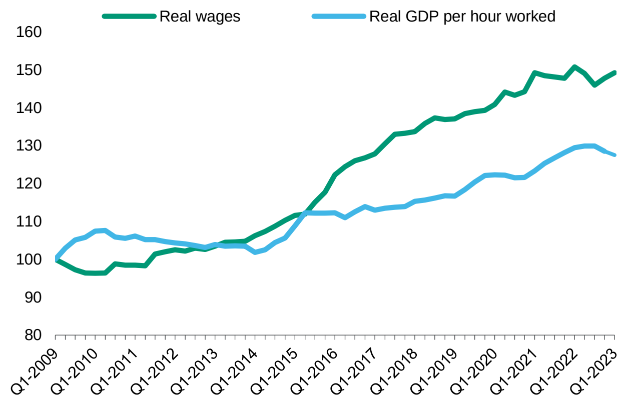
Strong fiscal framework supports policy credibility and effectiveness

Before the banking crisis, weaknesses in the budgetary framework resulted in an often procyclical fiscal stance, weak budget discipline, and inadequate surveillance and management of fiscal risks. However, a strong set of fiscal rules has been in place since the Organic Budget Law was passed in 2015. The rules target a balanced budget over a five-year horizon with a maximum deficit of 2.5% of GDP in any given year and a net debt ceiling of 30% of GDP.[4] The law also requires the government to publish a five-year fiscal policy statement at the beginning of each electoral term, as well as a rolling five-year fiscal strategy plan on an annual basis. The fiscal rules were suspended during the pandemic but will be reinstated in 2025, one year ahead of initial plans.

The authorities demonstrated their adherence to the rules even before the formal entry of the law into force. As a result of solid budgetary out-turns and the use of one-off revenue for debt reduction, Iceland's public debt declined by more than 50 percentage points of GDP between the peak in 2011 and 2018, one of the strongest ever episodes of debt reduction globally.

Exhibit 14

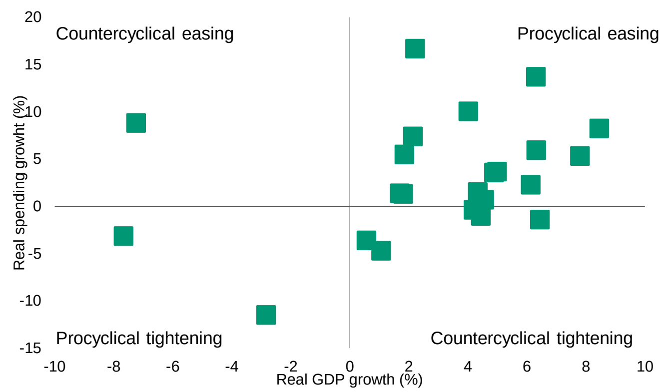
Wage increases have decoupled from productivity growth, putting pressure on inflation
Index (Q1 2009 = 100)



Sources: Statistics Iceland and Moody's Investors Service

Exhibit 15

Iceland has a history of procyclical budgetary policies



Sources: OECD and Moody's Investors Service

Fiscal strength score: a2

Fiscal strength captures the overall health of government finances, incorporating the assessment of relative debt burdens and debt affordability as well as the structure of government debt. Some governments have a greater ability to carry a higher debt burden at affordable rates than others. Fiscal strength is adjusted for the debt trend, the share of foreign currency debt in government debt, other public sector debt and for cases in which public sector financial assets or sovereign wealth funds are present. Depending on the adjustment factor, the overall score of fiscal strength can be lowered or increased.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

We assess Iceland's fiscal strength at "a2", reflecting its improving fiscal metrics, with a rapidly declining budget deficit and a firmly established downward debt trend. Iceland has a strong track record of reducing its very high debt burden after the 2008 crisis. Debt affordability is weaker than peers because of the large share of inflation-indexed debt as well as higher domestic funding costs. However, we recently moved the score upward from "baa1" score to factor in some interest revenue that offsets interest expenditure.

Other sovereigns with an "a2" assessment of fiscal strength include Ireland and Poland (A2 stable).

Exhibit 16

Peer comparison table factor 3: Fiscal strength

	Iceland A2/POS	a2 Median	Poland A2/STA	France Aa2/STA	Ireland Aa3/STA	Cyprus Ba1/POS	Slovenia A3/STA	Chile A2/STA
Final score	a2		a2	a2	a2	a2	a1	a1
Initial score	a2		a1	a1	aa2	a2	a1	a1
Gen. gov. debt (% of GDP)	68.7	58.9	49.1	111.8	44.7	86.5	69.9	38.0
Gen. gov. debt (% of revenue)	172.0	183.3	123.4	209.0	194.6	206.4	164.7	146.4
Gen. gov. interest payments (% of GDP)	2.3	1.5	1.6	1.9	0.7	1.5	1.1	1.0
Gen. gov. int. payments (% of revenue)	5.8	3.5	3.9	3.5	2.8	3.6	2.5	3.9

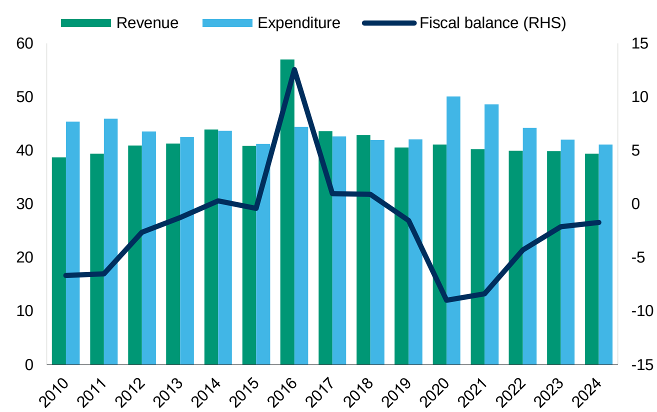
Sources: National authorities, IMF and Moody's Investors Service

Strong economic growth and credible fiscal framework support Iceland's fiscal metrics

In 2022, government finances benefited from strong revenue growth stemming from a robust economic performance, as well as the termination of pandemic-related spending. The general government budget deficit declined to 4.3% of GDP from 8.4% in 2021, far exceeding the government's original targets. Budget execution in 2023 will also likely be significantly stronger than expected, again boosted by the strong economy and the government's recent decision to actively tighten policy in an effort to support the central bank's disinflation efforts. The government now expects a deficit at the central government level of just 1.3% of GDP for 2023, compared with a target of 3% in the approved 2023 budget. It postponed several public investment projects and introduced some additional discretionary measures on the revenue side. For the general government (including local governments and the social security system), we forecast a budget deficit of 2% of GDP in 2023.

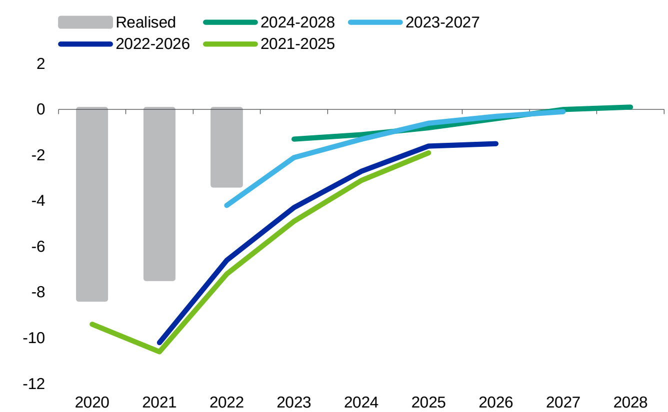
The government's medium-term fiscal plan for 2024-28 envisages a further gradual reduction in the central government deficit to 1.1% and 0.8% of GDP in 2024 and 2025, respectively, with the budget targeted to return to balance in 2027 and overall surplus in 2028. To reach the targets, the government plans to limit spending growth below nominal GDP growth while keeping revenue broadly stable as a share of GDP. Iceland's strong track record of sustained deficit reduction and the high political acceptance of the medium-term fiscal framework lead us to believe that the government will meet and possibly exceed the targets again.

Exhibit 17
Budget deficit is declining faster than anticipated ...
General government fiscal accounts (as a percentage of GDP)



Sources: Statistics Iceland and Moody's Investors Service

Exhibit 18
... and a balanced budget is now targeted for 2027
Central government deficit targets and out-turn (as a percentage of GDP)



Sources: Ministry of Finance and Moody's Investors Service

Downward trend in public debt is firmly established

Provided the fiscal targets are achieved as planned, government debt will decline more rapidly than we expect. In the 2021-25 fiscal plan, the government had aimed to stabilise the public debt ratio no later than 2026, and targeted a debt-to-GDP ratio of 55% at year-end 2022. The actual debt-to-GDP ratio — as defined in the fiscal framework — was 40%, and the government will likely stabilise debt already in 2023. Based on our definition, we expect the debt ratio to decline below 60% of GDP by 2024, supported by the narrowing in the fiscal deficit, as well as continued strong nominal GDP growth.

Iceland's downward debt trend is also resilient to most shocks, with the exception of a severe combined fiscal and economic shock, which has low probability (see Exhibit 19). The low share of foreign-currency debt reduces risks stemming from exchange-rate movements. The foreign-currency debt share fell to less than 10% of total debt as of June 2023 with the full repayment of a maturity in 2022 and the buyback of 52% of the eurobond maturing in May 2024, earlier in 2023.

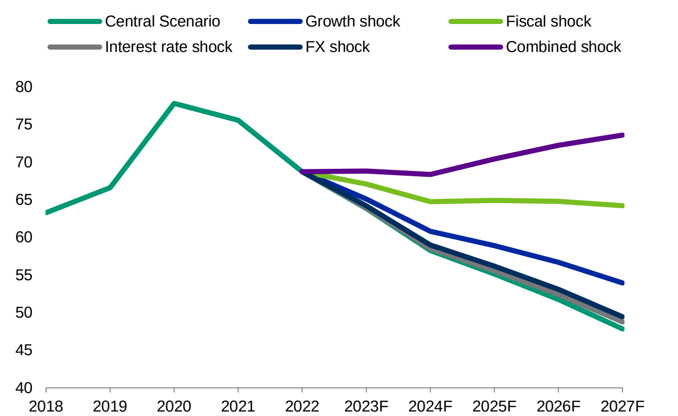
Our debt ratio includes 24 public-sector entities that were reclassified within the general government perimeter in 2020 by Statistics Iceland, leading to a significant deterioration in Iceland's debt ratio and debt-affordability indicators. The debt-to-GDP ratio increased by about 32 pps of GDP mainly as a result of the inclusion of the liabilities of the HF-Fund (24% of GDP) and, to a lesser extent, the Student Loan Fund (2% of GDP).

The government has started discussions with domestic pension funds, the main holders of HF-Fund bonds, about an early resolution of the fund and the government's guarantee for its obligations. The fund is in government-mandated wind-down and, from 2035 onward, its cash inflows will no longer be sufficient to cover its debt payments, requiring additional equity injections. The government aims for an early consensual agreement with the pension funds, but is also considering a change in legislation to place the fund into liquidation. So far, no conclusion has been reached. An early resolution of the guarantee would help accelerate the decline in debt.[5]

Exhibit 19

Debt trajectory is resilient to most shocks

General government debt (as a percentage of GDP)

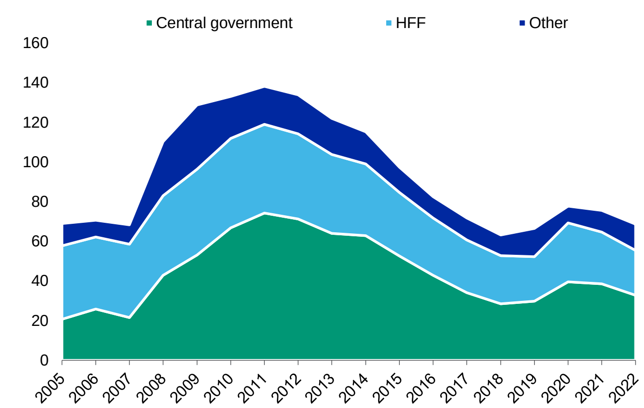


Standardised shocks are based on a 0.5 standard deviation calculated for 10 years over the course of the forecast period.
Sources: Moody's Investors Service

Exhibit 20

General government debt includes large liabilities from HF-Fund

General government debt (as a percentage of GDP)



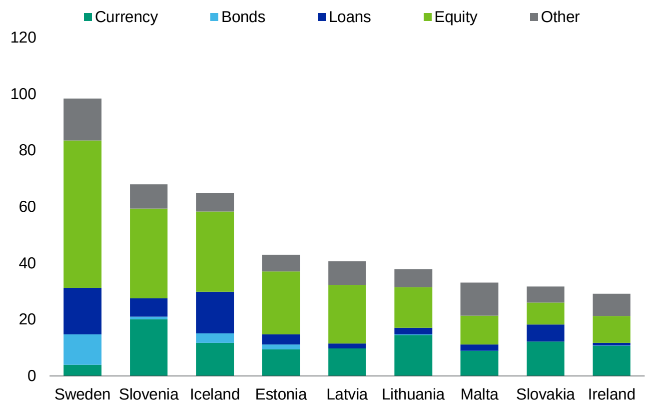
Other includes local governments, as well as public-sector entities classified under the general government.
Sources: Statistics Iceland, Central Bank of Iceland and Moody's Investors Service

The government's balance sheet is significantly stronger when taking into account its assets of 65% of GDP (see Exhibit 21). The most important of these are the state's remaining equity stakes in the domestic banks, the HF-Fund's loan book and substantial cash deposits of around 12% of GDP. The government has been gradually reducing its shareholding in the financial sector with the sale of its stake in Arion Bank hf. (A3/A3 positive, baa3)[6] in 2018 and that of 57.5% of Islandsbanki in 2021 and 2022, with proceeds used to reduce debt. The government's fiscal plan assumes full disposal of the Islandsbanki stake by 2024, which we expect to be delayed, while no plans have been made for its holding of 98.2% of Landsbankinn. The government receives dividends worth around 1% of GDP every year from its equity participations, and is considering the establishment of a sovereign wealth fund as a contingency fund for major disasters.

Debt affordability remains weaker than peers but is improving

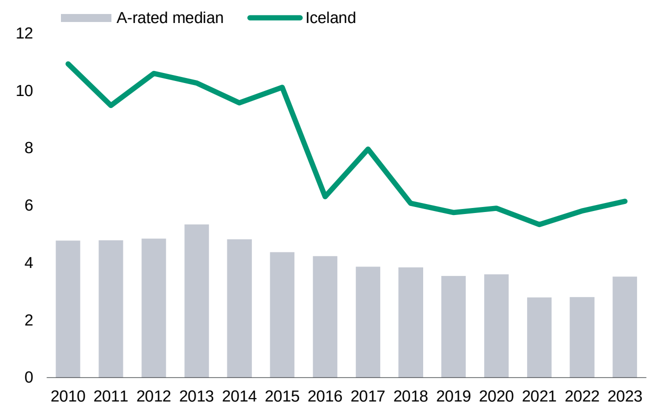
The retirement of higher-cost debt and the rebuilding of the revenue base since the banking crisis have helped improve the affordability of government debt, although the ratio of interest payments to revenue remain significantly above that of similarly rated peers like Poland and Slovakia (A2 negative). Domestic funding costs are higher than in EU countries and the share of inflation-indexed debt is also higher than for most peers. At the end of May 2023, 23% of Treasury debt was linked to inflation. We now consider the interest income of the HF-Fund when calculating debt interest payments as those are used to cover interest payments due on the fund's obligations. We also exclude assumed interest payments on unfunded pension liabilities for state employees to ensure consistency across countries. Following these changes, Iceland's debt affordability metrics are much closer to those of peers than before, at 5.8% in 2022. We expect debt affordability to stabilise at around current levels as inflation recedes but the cost of funding remains higher than in the past.

Exhibit 21
Government assets are larger than most peers
2022 (as a percentage of GDP)



Sources: Eurostat, Statistics Iceland and Moody's Investors Service

Exhibit 22
Debt affordability has been improving, but remains weak compared with peers
Interest payments (as a percentage of revenue)



Sources: National authorities and Moody's Investors Service

Low contingent liabilities pose limited risk to the government's balance sheet

As a result of the reclassification of public companies mentioned earlier, the number for contingent liabilities was significantly lower at around 1% of GDP as of year-end 2022. The largest guarantees have been extended to the power company Landsvirkjun (Baa1 stable), which accounts for 49% of total outstanding guarantees. The company has a stable operating performance and has been able to raise debt without government guarantee. It has also markedly improved its equity position and become a source of revenue for the government in recent years. The company agreed to pay $140 million (0.5% of GDP) in dividends to the government for 2022.

Susceptibility to event risk score: a

Factor 4: Overall score

Scale	aaa	aa	a	baa	ba	b	caa	ca	
+			Final						-

Factor 4: Sub-scores

Iceland aa

Score for Iceland

Median of countries with A2 rating

Overall adjustment to Factor 4 Susceptibility to Event Risk: **0**

Susceptibility to event risk evaluates a country's vulnerability to the risk that sudden events may severely strain public finances, thus increasing the country's probability of default. Such risks include political, government liquidity, banking sector and external vulnerability risks. Susceptibility to event risk is a constraint which can only lower the scorecard-indicated outcome.
Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

We assess susceptibility to event risk at "a", driven by banking sector considerations. However, risks emanating from the sector are well contained as Icelandic banks have large capital and liquidity buffers to weather any shocks. Large foreign-currency reserves and a net creditor position are reflected in a "aa" score for external vulnerability risks, similar to government liquidity and political risk scores.

Broad-based consensus on economic policy direction and low geopolitical risks

Political event risk, which we assess at "aa", is low in Iceland, reflecting relatively consistent policies in key areas that are important in safeguarding the credit profile irrespective of the government composition. Iceland's geographical location insulates the country from the current geopolitical risks stemming from the Russia-Ukraine war. Peers sharing this assessment include Australia (Aaa stable) and Canada (Aaa stable).

Exhibit 23

Peer comparison table factor 4a: Political risk

	Iceland	aa Median	Australia	Bahamas	Canada	Singapore	Cayman Islands	Uruguay
	A2/POS		Aaa/STA	B1/STA	Aaa/STA	Aaa/STA	Aa3/STA	Baa2/POS
Final score	aa		aa	aa	aa	aa	aa	aa
Voice & accountability, score[1]	1.4	0.9	1.4	0.9	1.5	-0.1	0.8	1.3
Political stability, score[1]	1.4	1.0	0.9	0.9	0.9	1.5	1.7	1.0

[1] Composite index with values from about -2.50 to 2.50: higher values correspond to better governance.
Sources: National authorities, IMF and Moody's Investors Service

The coalition government of Left-Green Movement and centre/centre-right Progressive and Independence parties was confirmed in the 2021 parliamentary elections, although the relative shares of the parties has shifted somewhat. This was the first time since 2009 that a coalition government has been renewed, with Prime Minister Katrín Jakobsdóttir continuing her term. The government coalition holds 38 out of 63 seats in the Alþingi, the Icelandic Parliament. Consensus on the direction of economic policies is broad, and political risk is low.

In contrast to most other European countries, we have not adjusted Iceland's score for political risk for geopolitical risks even though the country is a founding member of NATO, and thus in principle exposed to a potential conflict between NATO and Russia. Iceland has no standing army and contributes only on a civilian basis to NATO's operations. Besides Korea (Aa2 stable), Iceland is the only country with a Bilateral Defence Agreement with the US (Aaa stable), in force since 1951.

Low government liquidity risk because of strong fiscal credibility, a sizeable cash buffer and a large domestic investor base

We assess government liquidity risk at "aa", reflecting relatively modest borrowing needs, prudent liquidity management including significant cash buffers, and a large domestic investor base. Other sovereigns sharing a "aa" assessment including Poland and Slovakia.

Exhibit 24

Peer comparison table factor 4b: Government liquidity risk

	Iceland A2/POS	aa Median	Bermuda A2/STA	Malta A2/STA	Poland A2/STA	Slovakia A2/NEG	Malaysia A3/STA	Slovenia A3/STA
Final score	aa		aa	aa	aa	aa	aa	aa
Initial score	aa		aa	aa	aa	aa	aa	aa
Ease of access to funding	aa	aa	aa	aa	aa	aa	aa	aa
Gross borrowing requirements (% of GDP)	6.6	6.6	-0.5	11.6	13.8	12.2	11.7	11.0

Sources: National authorities, IMF and Moody's Investors Service

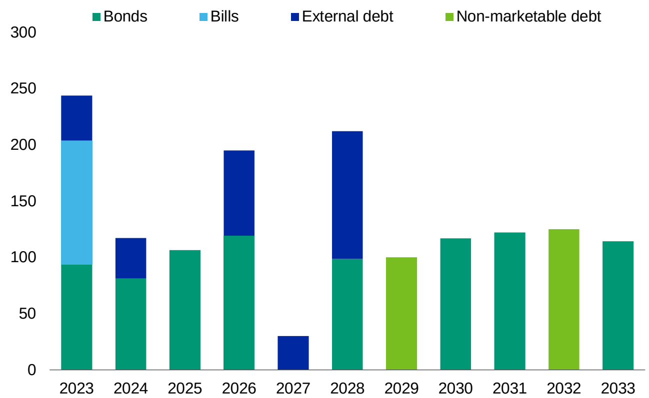
Iceland's gross borrowing requirements are moderate at 7% of GDP in 2023, which include our estimate for the budget deficit and maturing debt. Refinancing risks are also low with an average maturity of central government debt of 5.6 years as of May 2023.

The Treasury borrows mostly domestically and benefits from a large domestic investor base, including a large pension fund sector that holds around 40% of total Treasury bonds. Pension funds are required to invest at least 50% of their assets in local currency assets, but this threshold will be gradually lowered to 35% by 2036, which could reduce demand for government bonds. Foreign investors are much less present than in the past, holding just 6.7% of Icelandic government bonds as of June 2023, compared with 30% as of year-end 2009 (see Exhibit 26). The full lifting of capital controls since 2021 could allow inflows of foreign investors to offset the lower participation of pension funds, especially given Iceland's relatively favourable interest rate differential compared with most advanced economies.

International bonds serve as benchmark issuances for local issuers but are kept as reserve at the central bank, helping mitigate liquidity risks. The government repurchased 51% of the 2024 maturities in May 2023 and plans to issue a sustainable bond, which would not be placed with the central bank but spent to fund environmentally friendly projects. In addition, the government keeps at least ISK40 billion in deposits at the central bank. At the end of June 2023, deposits were ISK67 billion (2% of GDP), with an additional ISK199 billion held as foreign-exchange deposits.

Exhibit 25

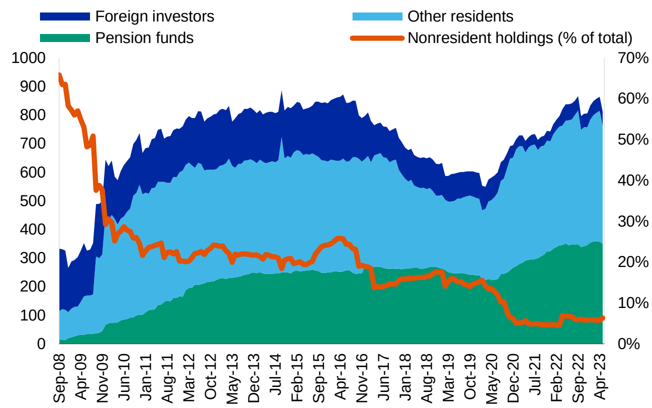
Favourable maturity profile limits refinancing risks
ISK billion



The 2023 maturities include the early buyback of around half of the 2024 eurobond maturity, executed in May 2023.
Sources: Government debt management and Moody's Investors Service

Exhibit 26

The government can rely on a large domestic investor base
Domestic debt by owner (ISK billion)



Sources: Government debt management and Moody's Investors Service

Strong capitalisation and liquidity help alleviate concentration risks in the banking system

We assess Iceland's banking sector risk at "a", reflecting the sizeable capital and liquidity buffers of the three large domestic banks. Other peers with a similar assessment of banking sector risk include Bermuda (A2 stable), Estonia (A1 stable) and Ireland.

Exhibit 27

Peer comparison table factor 4c: Banking sector risk

	Iceland A2/POS	a Median	Bermuda A2/STA	Chile A2/STA	Lithuania A2/STA	Poland A2/STA	Estonia A1/STA	Ireland Aa3/STA
Final score	a		a	a	a	a	a	a
Initial score	a		baa	a	a	a	a	a
BCA[1]	baa3	baa2	baa2	baa1	baa3	baa3	baa3	baa1
BSCE[2]	baa3	baa2	baa2	baa1	baa3	baa3	baa3	baa3
Total domestic bank assets (% of GDP)	141.6	170.6	334.6	151.1	85.4	92.4	105.4	111.1

[1] BCA is an average of Baseline Credit Assessments (BCAs) for rated domestic banks, weighted by bank assets.
[2] Where we have no or small rating coverage in a system, we estimate the risk of Banking Sector Credit Event (BSCE) based on available data for aggregate banking system.
Sources: National authorities, IMF and Moody's Investors Service

The Icelandic banking sector poses limited risks to the government's balance sheet because of its strong liquidity and capital buffers: the average Common Equity Tier 1 capital ratio was 20.4% at the end of the first quarter of 2023, significantly higher than that of most rating peers. The banking sector is now entirely domestically focused and concentrated in three large banks, which together account for close to 95% of the system's assets.

Our outlook for the banking system is stable. Higher interest rates support Icelandic banks' core profitability. Asset quality might deteriorate but the starting position is solid, with average nonperforming loan (NPL) ratios at just 1.4% in March 2023. The authorities have put in place a number of borrower-based measures to reduce the risks related to high house prices. The measures have started to rein in house price inflation (see Exhibit 13), and relatively low average loan-to-value ratios and a strong labour market help protect the quality of the banks' mortgage book. Icelandic borrowers facing difficulties also have the option of switching to inflation-linked mortgages, which will lower their interest payments in the coming years.

While banks' exposure to the commercial real estate sector is sizeable (accounting for 17% of gross loans), it is low as a share of their capital base. In addition, limited supply in recent years still supports price developments although activity is expected to slowdown due to the high level of interest rates.

Large foreign-currency reserves and net external creditor limit external risks

We have set external vulnerability risk at “aa”, reflecting Iceland's net external creditor position and very large foreign-currency reserves, which help buffer external shocks. Peers sharing the same risk assessment include Malta (A2 stable) and Finland (Aa1 stable).

Exhibit 28

Peer comparison table factor 4d: External vulnerability risk

	Iceland A2/POS	aa Median	Lithuania A2/STA	Malta A2/STA	Finland Aa1/STA	Saudi Arabia A1/POS	Hong Kong SAR, China Aa3/STA	Bermuda A2/STA
Final score	aa		aa	aa	aa	aa	aa	aaa
Initial score	aa		aa	aa	aa	aa	aa	aaa
Current account balance (% of GDP)	-1.6	-0.8	-5.1	-5.8	-3.9	13.6	10.5	13.5
Net IIP (% of GDP)[1]	24.6	0.6	-6.6	52.3	-2.7	64.4	488.0	70.4

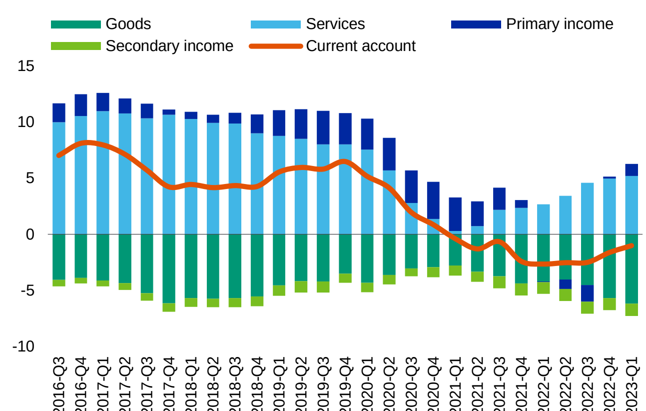
[1] Net international investment position (% of GDP).
Sources: National authorities, IMF and Moody's Investors Service

Helped by the tourism sector Iceland posted large current account surpluses until 2020. Since then, the impact of the pandemic, strong domestic demand and large dividends to foreign companies have turned the current account into deficit. We expect the deficit to narrow significantly to around 0.6% of GDP in 2023, backed by the strength in tourism demand and other exports as well as lower profits of foreign companies, particularly in the aluminium sector.

Iceland's net international investment position (NIIP) has improved significantly since the banking crisis, helping buffer shocks to the small open economy. The resolution of the failed bank estates in 2015, coupled with the increase in pension funds' foreign investments, mainly drove the return into a net external creditor position. Valuation effects on the pension funds' portfolio investments resulted in a reduction in the NIIP to 25% of GDP at the end of 2022 compared to 38% in 2021, a still-solid position (see Exhibit 30). Iceland has also substantially reduced its external debt stock, to 75% of GDP at the end of 2022 from more than 500% in 2007. Banks and corporates are the main borrowers abroad, but they tend to hold large foreign-currency assets or earn foreign-currency earnings.

Exhibit 29

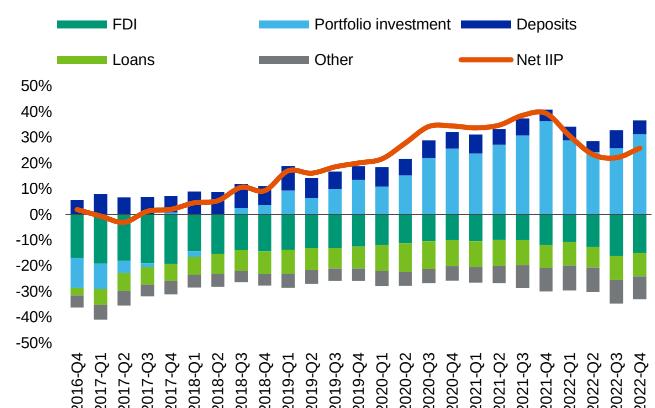
Current account is gradually improving towards a balanced position
Current account as a percentage of GDP (four-quarter rolling sum)



Sources: Central Bank of Iceland, Statistics Iceland and Moody's Investors Service

Exhibit 30

Pension funds' external assets drive net external creditor position
As a percentage of GDP



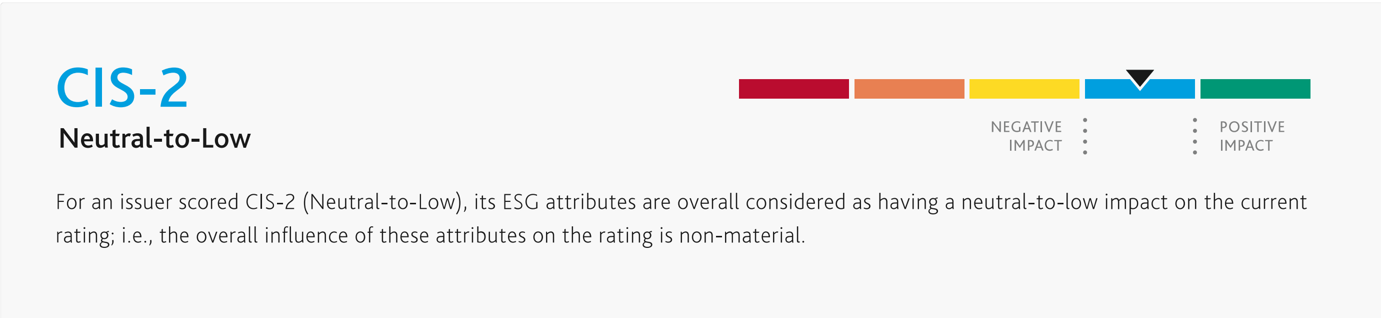
Sources: Central Bank of Iceland, Statistics Iceland and Moody's Investors Service

External surpluses have allowed the central bank to build substantial foreign-currency reserves, which it uses to smooth excessive volatility in the exchange rate. Reserves were $4.9 billion at the end of May 2023, equivalent to 18% of GDP or 23% of the country's total external debt. Reserves declined since 2021 as the Treasury used its account at the central bank to repay foreign debt, but using the IMF's reserve-adequacy metrics, reserves remain adequate, equivalent to 1.23x the recommended level at the end of 2022.

ESG considerations

Iceland's ESG Credit Impact Score is Neutral-to-Low CIS-2

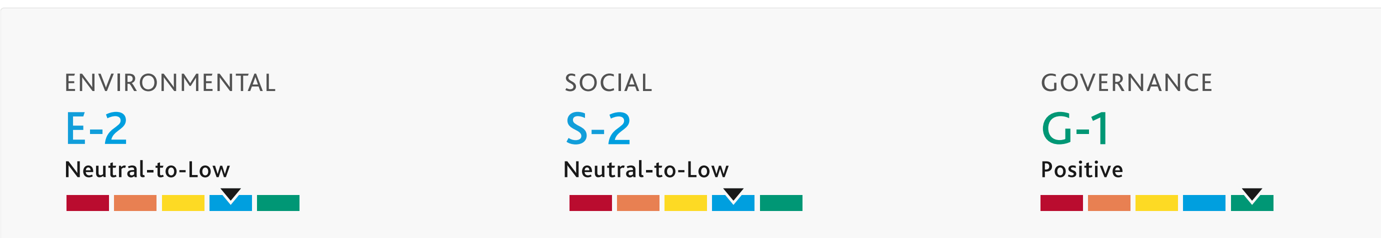
Exhibit 31
ESG Credit Impact Score



Source: Moody's Investors Service

Iceland's ESG Credit Impact Score is neutral to low (**CIS-2**), reflecting neutral-to-low exposure to environmental and social risks, and very strong institutions.

Exhibit 32
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Iceland's exposure to environmental risks is neutral to low (**E-2**) as nearly all of its energy generation and consumption are covered by renewable sources, in particular hydroelectric power and geothermal energy. Iceland's unique geological features imply some exposure to physical climate risks but also offer opportunities for the country's key sectors.

The impact of warming seas on fish stocks in Icelandic waters is not yet clear; while some varieties may migrate out of Iceland's waters as illustrated by the decline in capelin fish stocks in 2019, other species have migrated into Icelandic waters. Also, the sector has considerable flexibility to adapt to changing stocks, which it has proved multiple times. Warmer temperatures are favourable for plant productivity and agriculture. Around 11% of Iceland's land mass consists of glaciers; while the melting of glaciers raises the risk of landslides, it also increases availability of hydropower, at least for several decades.

Social

Similarly, Iceland faces neutral to low social risks (**S-2**). Iceland's demographic profile is more favourable than in many other countries because of long working lives, high participation rates of women and the flexibility of the labour force. Strong inward migration further supports the economy, as immigrants' participation rate exceeds that of the domestic population. In contrast to some of the Nordic countries, immigrants and refugees are widely perceived to benefit the Icelandic economy and society.

Iceland also benefits from high-quality education, access to basic services and housing availability, similar to other Scandinavian countries. Indicators for access to healthcare are very strong, in line with the fast response to the coronavirus pandemic. While wage negotiations between employers and trade unions can affect Iceland's competitiveness, the highly coordinated collective bargaining has generally been a stabilising factor, ensuring relatively contained wage differentials and contributing to limited income disparities and social peace.

Governance

Iceland's very high institutions and governance strength is reflected in a positive G issuer profile score (**G-1**). This is underpinned by its strong scores in most of the WGIs, which reflect the high credibility of its institutions and the country's well-developed macroeconomic policy environment. This contributes to its relatively strong resilience to E and S risks, along with very high wealth levels.

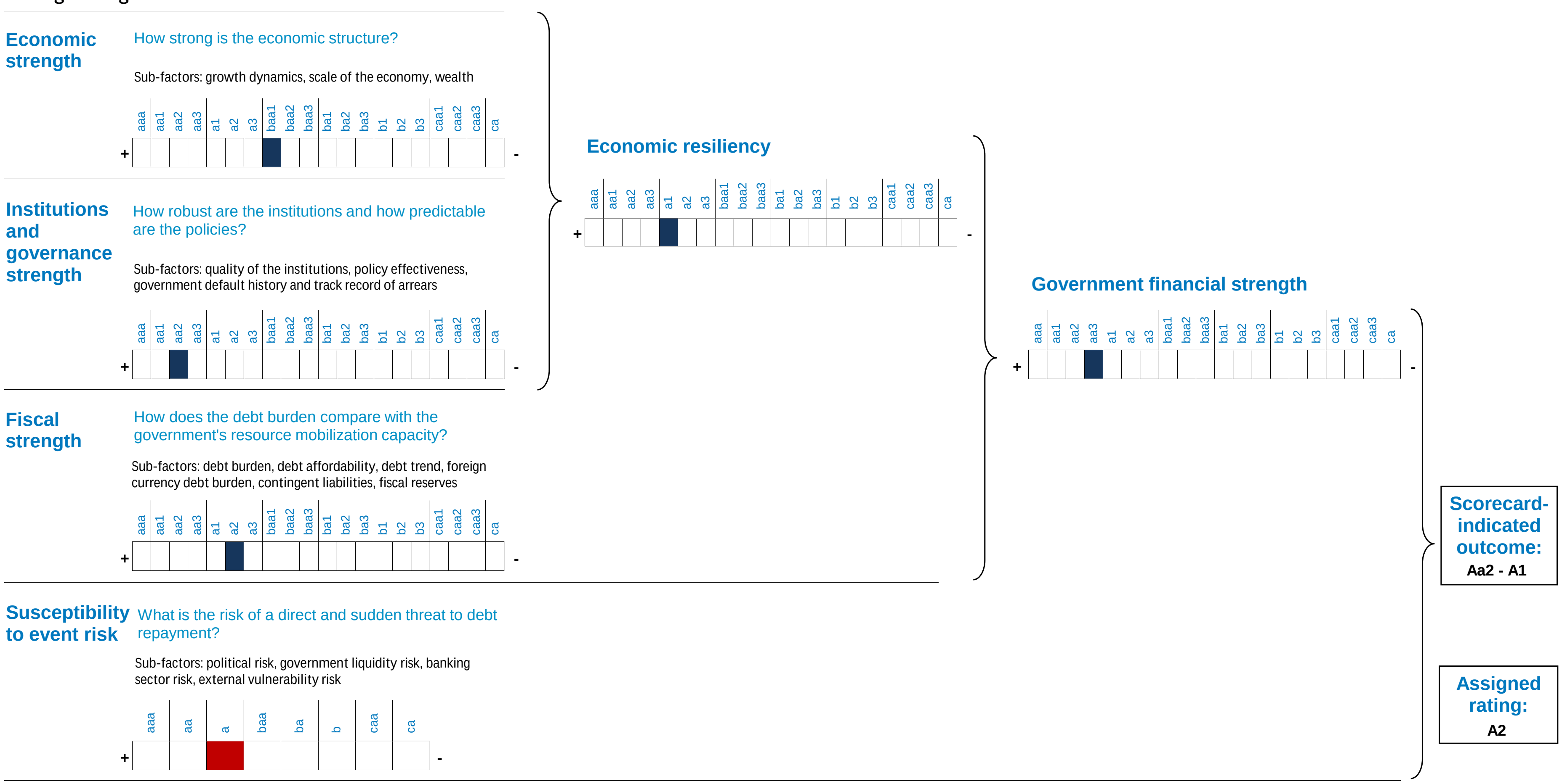
All of these considerations are further discussed in the “Credit profile” section above. Our approach to ESG is explained in our report on how the scores depict varied and largely credit-negative impact of ESG factors and our cross-sector methodology General Principles for Assessing Environmental, Social and Governance Risks Methodology.

Scorecard-indicated outcome

Combining the scores for individual factors provides the scorecard-indicated outcome. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the scorecard-indicated outcome. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the scorecard-indicated outcome. For more information, please see our Sovereigns Rating Methodology.

Exhibit 33

Sovereign rating metrics: Iceland



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding Iceland with other sovereigns that we rate. It focuses on a comparison with sovereigns within the same scorecard-indicated outcome and shows the relevant credit metrics and factor scores.

Close peers are other small countries, such as Lithuania, Malta and Slovenia (A3 stable). Iceland's higher institutional and governance strength is the main differentiating factor.

Exhibit 34

Iceland's key peers

	Year	Iceland	Israel	Slovenia	Lithuania	Malta	Slovakia	A2 Median	Western Europe Median
Rating/outlook		A2/POS	A1/STA	A3/STA	A2/STA	A2/STA	A2/NEG	A2	Aa3
Scorecard-indicated outcome		Aa2 - A1	A1 - A3	A1 - A3	Aa3 - A2	A1 - A3	A1 - A3	A1 - A3	Aa2 - A1
Factor 1		**baa1**	**aa3**	**baa1**	**baa1**	**baa1**	**baa1**	**baa1**	**a2**
Nominal GDP ($ bn)	2022	27.8	522.0	62.0	70.2	17.7	115.3	70.2	528.5
GDP per capita (PPP, Intl$)	2022	66,512	52,349	50,059	47,107	58,072	39,490	47,107	64,656
Avg. real GDP (% change)	2018 - 2027F	2.4	3.8	2.7	2.7	4.1	2.0	2.4	1.5
MAD Volatility in real GDP growth (ppts)	2013 - 2022	1.2	0.3	1.3	1.1	2.1	1.2	1.2	0.9
Factor 2		**aa2**	**a2**	**a2**	**a1**	**a3**	**a2**	**a2**	**aa2**
Quality of legislative & executive institutions	Latest available	aa	a	a	a	baa	a	a	aa
Strength of civil society & judiciary	Latest available	aaa	a	a	a	baa	a	a	aaa
Fiscal policy effectiveness	Latest available	aa	baa	a	aa	a	a	a	aa
Monetary & macro policy effectiveness	Latest available	a	aa	a	a	a	a	a	aa
Gen. gov. fiscal balance (% of GDP)	2022 - 2024F	-2.6	-0.7	-3.3	-1.8	-5.2	-4.4	-2.6	-2.0
Average inflation (% change)	2018 - 2027F	4.4	2.0	3.3	5.0	2.5	5.4	4.4	2.7
Volatility of inflation (ppts)	2013 - 2022	2.0	1.5	2.7	5.6	1.6	3.6	2.9	2.3
Factor 3		**a2**	**a3**	**a1**	**aa2**	**a1**	**a1**	**a1**	**a1**
Gen. gov. debt (% of GDP)	2022	68.7	60.7	69.9	38.4	53.4	57.8	49.1	66.1
Gen. gov. debt (% of revenue)	2022	172.1	162.2	164.7	107.2	152.2	143.6	146.4	152.2
Gen. gov. interest payments (% of revenue)	2022	6.6	6.8	2.5	1.0	2.8	2.6	3.9	2.1
Gen. gov. interest payments (% of GDP)	2022	2.7	2.5	1.1	0.4	1.0	1.0	1.0	0.8
Factor 4		**a**	**baa**	**baa**	**ba**	**baa**	**baa**	**baa**	**baa**
Political risk	Latest available	**aa**	**baa**	**baa**	**ba**	**a**	**baa**	**a**	**baa**
Government liquidity risk	Latest available	**aa**	**aaa**	**aa**	**a**	**aa**	**aa**	**aa**	**aaa**
Gross borrowing requirements (% of GDP)	2023F	6.6	6.2	11.0	5.8	11.6	12.2	6.6	9.3
Banking sector risk	Latest available	**a**	**a**	**baa**	**a**	**baa**	**a**	**a**	**a**
BSCE[1]	Latest available	baa3	baa2	ba1-ba2	baa3	baa3	baa2	baa3	baa1
Total domestic bank assets (% of GDP)	2022	141.6	147.4	88.0	85.4	189.1	104.0	141.6	232.3
External vulnerability risk	Latest available	**aa**	**aaa**	**a**	**aa**	**aa**	**a**	**aa**	**aa**
Current account balance (% of GDP)	2022	-1.6	3.8	-0.4	-5.1	-5.8	-8.2	-5.1	0.6
External vulnerability indicator (EVI)	2024F	--	--	--	--	--	--	135.6	--
External debt (% of current account receipts)	2022	147.6	76.2	92.9	71.9	285.5	--	169.6	285.5
Net international investment position (% of GDP)	2022	24.6	32.1	-0.6	-6.6	52.3	-61.0	-6.6	24.6

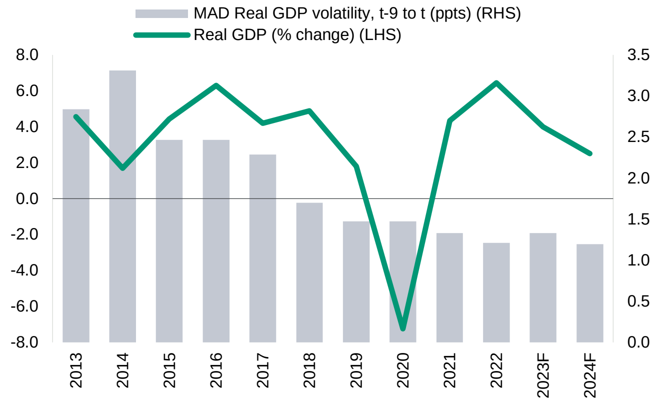
[1] BSCE is our estimate of the risk of a Banking Sector Credit Event (BSCE), which we use for sovereigns where we have no or very limited rating coverage of a system. Otherwise, we use the Baseline Credit Assessment (BCA) for rated domestic banks, weighted by bank assets.

Sources: National authorities, IMF and Moody's Investors Service

DATA, CHARTS AND REFERENCES

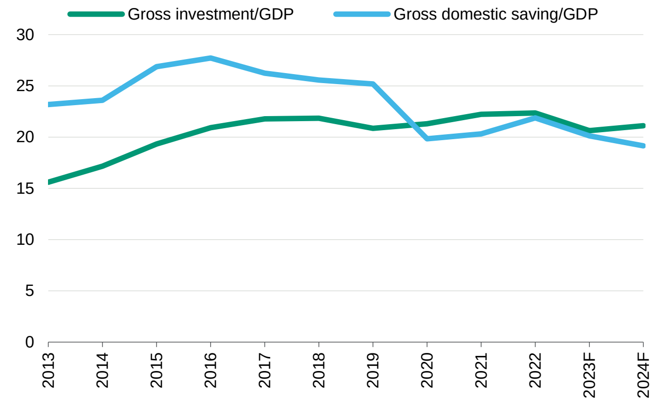
Chart pack: Iceland

Exhibit 35
Economic growth



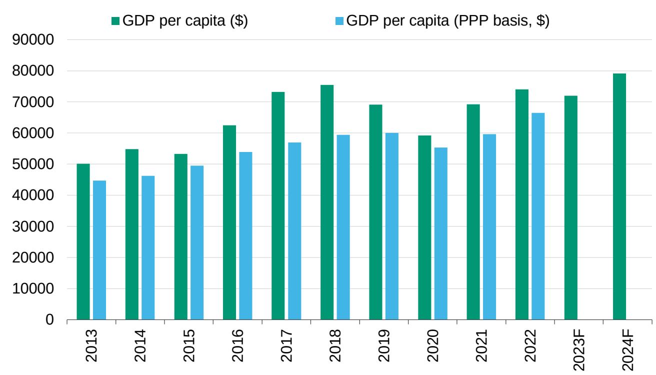
Source: Moody's Investors Service

Exhibit 36
Investment and saving



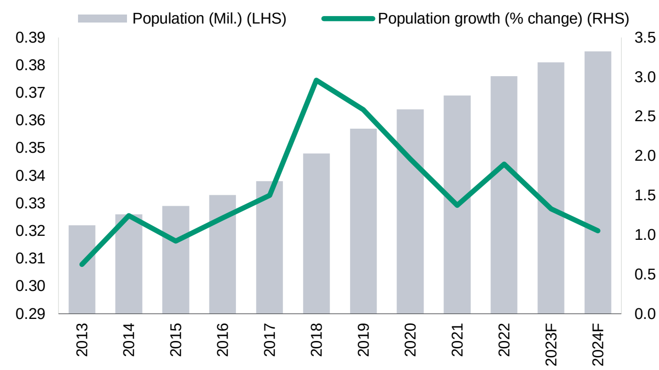
Source: Moody's Investors Service

Exhibit 37
National income



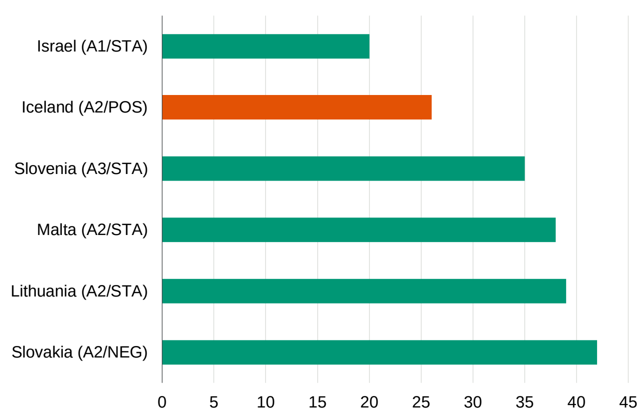
Source: Moody's Investors Service

Exhibit 38
Population



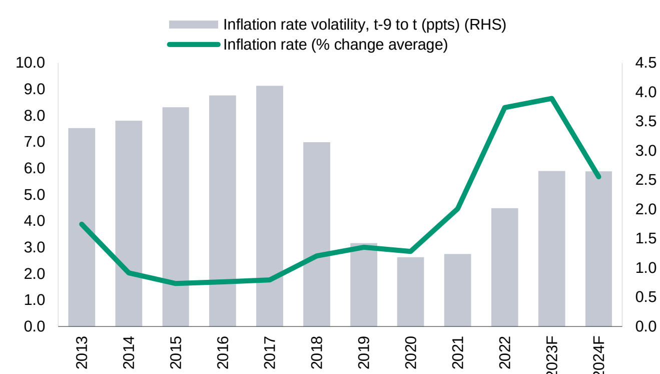
Source: Moody's Investors Service

Exhibit 39
Global Competitiveness Index
Rank 26 out of 141 countries



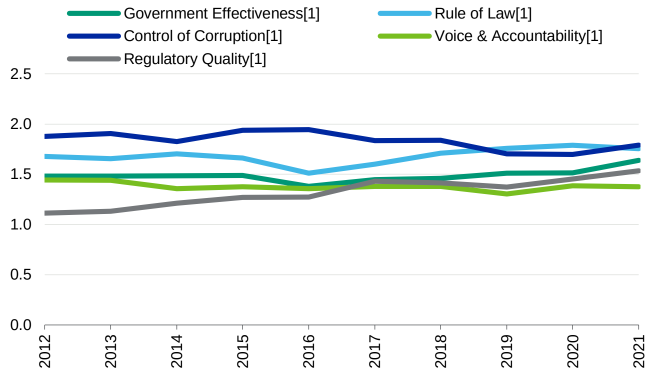
Source: World Economic Forum

Exhibit 40
Inflation and inflation volatility



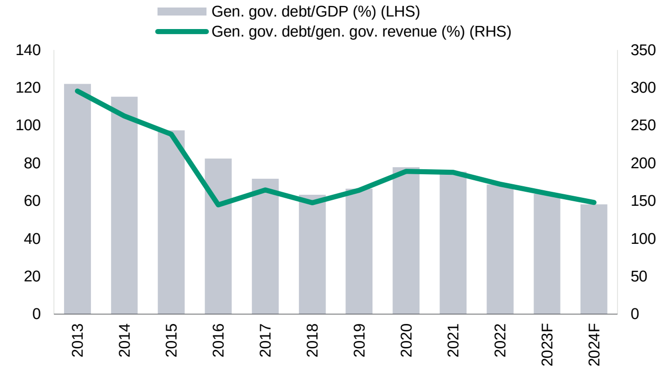
Source: Moody's Investors Service

Exhibit 41
Institutional framework and effectiveness



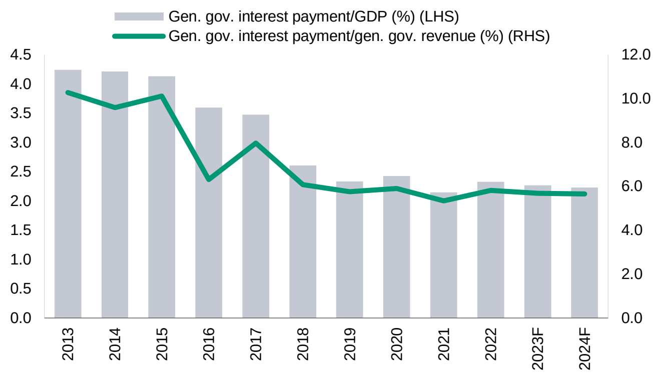
[1] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions.
Source: Worldwide Governance Indicators

Exhibit 42
Debt burden



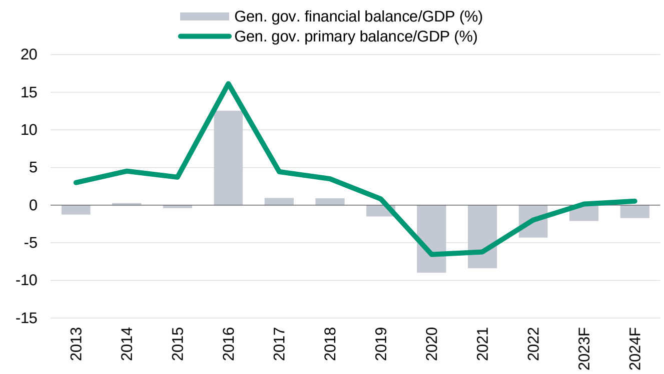
Source: Moody's Investors Service

Exhibit 43
Debt affordability



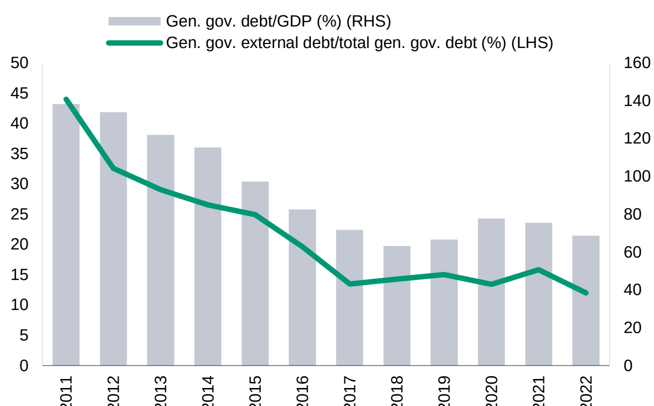
Source: Moody's Investors Service

Exhibit 44
Financial balance



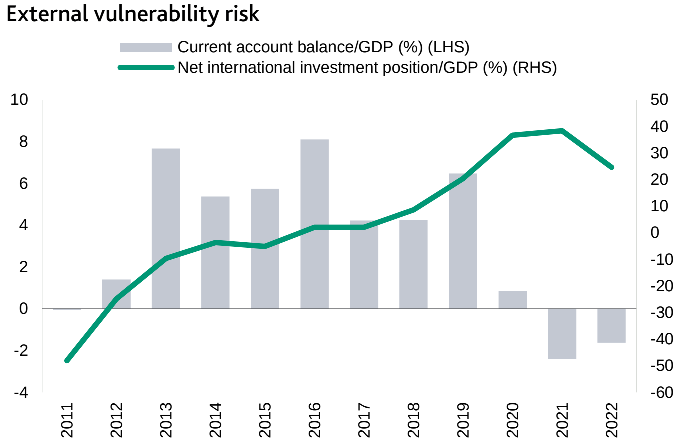
Source: Moody's Investors Service

Exhibit 45
Government liquidity risk



Source: Moody's Investors Service

Exhibit 46
External vulnerability risk



Source: Moody's Investors Service

Rating history

Exhibit 47
Iceland[1]

Long Term Ratings		Outlook	Review Action		Short Term Ratings		Action Date
Foreign Currency	Local Currency		Foreign Currency	Local Currency	Foreign Currency	Local Currency	
A2	A2	POS	-	-	-	-	Jul-23
A2	A2	STA	-	-	-	-	Nov-19
A3	A3	POS	-	-	-	-	Jul-18
A3	A3	STA	-	-	-	-	Sep-16
Baa2	Baa2	RUR	Possible Upgrade	Possible Upgrade	-	-	Jun-16
Baa2	Baa2	STA	-	-	-	-	Jun-15
Baa3	Baa3	STA	-	-	-	-	Feb-13
Baa3	Baa3	NEG	-	-	-	-	Jul-10
Baa3	Baa3	STA	-	-	-	-	Apr-10
Baa3	Baa3	NEG	-	-	-	-	Apr-10
Baa3	Baa3	STA	-	-	-	-	Nov-09
Baa1	Baa1	NEG	-	-	-	-	Dec-08
A1	A1	RUR	Possible Downgrade	Possible Downgrade	-	-	Oct-08
Aa1	Aa1	RUR	Possible Downgrade	Possible Downgrade	-	-	Sep-08
Aa1	Aa1	STA	-	-	-	-	May-08
Aaa	Aaa	NEG	-	-	-	-	Mar-08
Aaa	Aaa	STA	-	-	-	-	Nov-03
Aaa	Aaa	-	-	-	-	-	Oct-02
Aa3	Aaa	-	-	-	-	-	Jul-97
A1	-	-	Possible Upgrade	-	-	-	Jun-97
A1	-	-	-	-	-	-	Jun-96
A2	-	-	Possible Upgrade	-	-	-	Apr-96
A2	-	-	-	-	-	-	May-89

[1] Table excludes rating affirmations and ceilings. Please visit the issuer page for Iceland for the full rating history.
Source: Moody's Investors Service

Annual statistics

Exhibit 48

Iceland

	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023F	2024F
Economic structure and performance												
Nominal GDP (US$ bil.)	16.1	17.9	17.5	20.8	24.7	26.3	24.7	21.6	25.6	27.8	27.4	30.5
Population (Mil.)	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
GDP per capita (US$)	50,078	54,809	53,244	62,442	73,161	75,462	69,086	59,212	69,248	74,047	71,978	79,156
GDP per capita (PPP basis, US$)	44,673	46,239	49,471	53,943	56,945	59,392	60,076	55,345	59,575	66,512	--	--
Nominal GDP (% change, local currency)	6.8	5.9	10.8	8.7	5.2	7.6	6.3	-3.5	11.2	16.1	9.2	6.3
Real GDP (% change)	4.6	1.7	4.4	6.3	4.2	4.9	1.8	-7.2	4.3	6.4	4.0	2.5
Inflation rate (% change average)	3.9	2.0	1.6	1.7	1.8	2.7	3.0	2.8	4.5	8.3	8.7	5.7
Unemployment rate (%)	5.8	5.4	4.5	3.3	3.3	3.1	3.9	6.4	6.0	3.8	3.2	3.5
Gross investment/GDP	15.6	17.2	19.3	20.9	21.8	21.8	20.9	21.3	22.2	22.4	20.6	21.1
Gross domestic saving/GDP	23.2	23.6	26.9	27.7	26.2	25.6	25.2	19.8	20.3	21.9	20.2	19.3
Nominal exports of G & S (% change, US$ basis)	6.0	7.2	-1.7	9.1	14.5	6.9	-10.9	-33.5	33.3	35.0	0.1	14.9
Nominal imports of G & S (% change, US$ basis)	1.3	9.8	-4.1	9.8	20.1	9.7	-13.6	-22.4	34.3	30.0	-6.1	13.0
Real exports of G & S (% change)	6.8	3.9	8.9	11.0	5.1	0.4	-5.5	-31.1	14.7	20.6	5.7	6.0
Real imports of G & S (% change)	0.1	10.0	13.5	14.6	11.8	-0.9	-9.1	-20.6	19.9	19.7	-0.8	4.2
Net exports of goods & services/GDP	7.7	6.4	7.5	6.6	4.5	3.5	4.5	-1.6	-2.0	-0.7	2.2	3.1
Openness of the economy[1]	98.8	96.7	95.8	88.3	87.0	88.6	82.9	68.0	76.8	93.4	91.9	94.3
Government Effectiveness[2]	1.5	1.5	1.5	1.4	1.4	1.5	1.5	1.5	1.6	--	--	--
Government finance												
Gen. gov. revenue/GDP	41.3	43.9	40.8	57.0	43.6	42.9	40.6	41.1	40.2	40.0	39.9	39.4
Gen. gov. expenditures/GDP[3]	42.5	43.6	41.2	44.4	42.6	42.0	42.1	50.1	48.6	44.2	42.0	41.1
Gen. gov. financial balance/GDP[3]	-1.2	0.3	-0.4	12.5	1.0	0.9	-1.5	-9.0	-8.4	-4.3	-2.1	-1.7
Gen. gov. primary balance/GDP[3]	3.0	4.5	3.7	16.1	4.4	3.5	0.8	-6.6	-6.2	-2.0	0.1	0.5
Gen. gov. debt (US$ bil.)[3]	20.8	19.0	17.4	18.4	18.2	15.5	16.6	17.8	18.8	18.2	18.1	17.9
Gen. gov. debt/GDP[3]	122.0	115.3	97.3	82.5	71.7	63.2	66.6	77.8	75.6	68.7	63.8	58.2
Gen. gov. debt/gen. gov. revenue[3]	295.6	262.4	238.3	144.8	164.6	147.5	164.2	189.2	187.9	172.0	160.1	148.0
Gen. gov. interest payments/gen. gov. revenue	10.3	9.6	10.1	6.3	8.0	6.1	5.8	5.9	5.3	5.8	5.7	5.7
External payments and debt												
Nominal exchange rate (local currency per US$, Dec)	115.6	126.9	129.6	112.8	104.4	116.3	121.1	127.2	130.4	142.0	145.0	142.1
Real eff. exchange rate (% change)	4.2	6.8	2.4	13.0	12.1	-2.6	-7.0	-8.1	4.0	2.8	--	--
Relative unit labor cost	89.8	94.0	100.0	105.3	111.0	116.7	118.1	123.3	128.6	139.2	--	--
Current account balance (US$ bil.)[4]	1.2	1.0	1.0	1.7	1.0	1.1	1.6	0.2	-0.6	-0.5	-0.2	0.0
Current account balance/GDP[4]	7.7	5.4	5.7	8.1	4.2	4.3	6.5	0.9	-2.4	-1.6	-0.6	-0.1
Net foreign direct investment/GDP	-0.3	4.1	4.0	3.5	0.7	-1.7	-2.9	-2.3	0.7	2.9	0.5	1.2
Net international investment position/GDP[4]	-9.7	-3.7	-5.2	2.0	2.0	8.6	20.3	36.7	38.3	24.6	--	--
Official forex reserves (US$ bil.)	4.1	4.1	4.8	6.9	6.2	6.0	6.4	6.0	6.3	5.1	5.5	5.6

Source: Moody's Investors Service

Related websites and information sources

» Sovereign risk group webpage

» Sovereign ratings list

Endnotes

1 Iceland has the lowest Gini coefficient of all OECD countries, implying the most even distribution of wealth among this group of countries.

2 According to forecasts from the 2021 Ageing Report and Statistics Iceland.

3 Conducted by the Icelandic Food and Veterinary Authority in collaboration with Boston Consulting Group.

4 The government defines net general government debt as gross debt excluding pension liabilities and accounts payable, and also net of currency and deposits. The definition excludes the public-sector companies that were included in the general government perimeter in 2020. These are, however, included for information purposes in future budgets and financial plans.

5 For more details, please see the Credit Analysis published on 29 July 2022.

6 The ratings shown are Arion Bank's deposit rating, senior unsecured debt rating and Baseline Credit Assessment.

REPORT NUMBER 1372468

Contacts

Kathrin Muehlbronner +44.20.7772.1383
Senior Vice President
kathrin.muehlbronner@moodys.com

Lenaic Couderc +44.20.7772.1799
Associate Analyst
lenaic.couderc@moodys.com

Marie Diron +44.20.7772.1968
MD-Global Sovereign Risk
marie.diron@moodys.com

Dietmar Hornung +49.69.70730.790
Associate Managing Director
dietmar.hornung@moodys.com

MOODY'S INVESTORS SERVICE