

## Iceland

### Quantitative Factors (Relative Weights in any New Rating, or change to Existing Rating or Outlook)

		2017		2018		2019		2020		2021	
Weight	Factor	A	A	A	A	E	E	F	F	F	F
Medium	GDP per capita (USD, mkt exchange rates)	71,662	74,218	74,185	75,698	68,596	71,142	66,419	55,450	68,791	65,075
Medium	Real GDP Growth (%)	4.4	4.5	4.8	3.8	-0.2	1.9	1.6	-8.5	2.5	4.4
Low	Consumer prices (annual average % change)	-1.6	-1.6	0.7	0.7	1.5	2.0	2.0	3.0	3.0	2.5
Medium	General government balance (% of GDP)	0.5	0.6	0.8	0.8	0.2	-1.0	-0.1	-9.0	0.3	-4.5
Medium	General government debt (% of GDP)	43.3	43.2	35.9	37.4	35.3	37.1	34.1	53.3	32.1	51.9
Medium	Current account balance plus net FDI (% of GDP)	4.4	4.4	1.1	1.2	3.8	2.7	4.0	-2.5	4.2	0.4
Low	Net external debt (% of GDP)	30.9	31.7	20.5	19.4	15.3	19.4	9.1	33.2	2.2	29.8

  

		Colour key	
n/a	IMF Development Classification	DM	Improvement relative to previous review
n/a	CDS Market Implied Rating as at: 13-May-2020	BBB+	Deterioration relative to previous review

### Qualitative Factors (Relative Weights in any New Rating, or change to Existing Rating or Outlook)

Weight	Factor	Change since last review
Low	Fiscal Financing Flexibility	Stable
Medium	Public Debt Sustainability	Negative
Medium	External Vulnerability	Negative
Low	Banking System Strength	Negative
Low	Political Risk/Uncertainty	Stable
Medium	Macro-economic Outlook, Policy Coherence and Credibility	Negative
Low	Business Environment and Competitiveness	Stable
n/a	Other Factors	n/a

### Footnotes

- The risks, limitations and uncertainties associated with the ratings are detailed in the Rating Action Commentary.
- Weights - 'High'/'Medium'/'Low' - reflect the relative importance of each Quantitative and Qualitative Factor in the context of a change in the rating or Outlook.
- Weights for Economic Development (IMF Development Classification) and Indicator of Default (CDS Market Implied Rating) will always be n/a because these indicators are not referenced in the Fitch Sovereign Rating Criteria.
- All other relevant rating factors are referenced in the Rating Action Commentary.

## Discussion Note

### Issuer: Iceland

Date of Rating Committee: 19/05/2020

Rating Committee Chair confirms that the Rating Action Report (RAR) is complete and correct, including:

- (i) Indicator of default is disclosed, where available (CDS Implied Rating) (Y)
- (ii) Indicator for economic development is disclosed (EM/DM indicator) (Y)
- (iii) Weightings of quantitative and qualitative factors are disclosed only for changes in existing ratings or Outlooks and for newly assigned ratings (**for EU Regulated Issuers Only**) (Y)

SRM Output: A

QO Adjustment: 0 notches

Final Rating: A

### Summary of Discussion

The rating committee discussed the following key issues:

- Coronavirus pandemic effects on the economy, prospects and risks for GDP growth: contribution and composition of tourism to the economy, outlook and risks facing the tourism sector and airline industries' capacity; risks and resilience including from fishing and aluminium export sectors.
- Macroeconomic performance: Impact of past shocks from WowAir collapse and 737 Max jets and past developments in the tourism sector; 2008-2009 global financial crisis and comparisons to current crisis; balance of risks.
- Public finances outturns and projections: volume and composition of fiscal package to respond to coronavirus shock; track record of fiscal consolidation; assumptions behind our projections; assumptions on state guarantees being called in 2020-2021; medium-term debt projections; net versus gross public debt and potential use of government deposits; fiscal financing flexibility and access to public pension funds.
- External finances: trends in current account, FDI and external debt; FX reserve adequacy including comparison to onset of global financial crisis; risks to capital flows and potential capital controls; overall assessment of vulnerability to external shocks.
- Exchange rate developments and monetary policy; Central Bank of Iceland (CBI) rate cuts, FX interventions and special reserve requirements; potential impact of Icelandic pension fund portfolio diversification; expectations for exchange rate and interest rates.
- Real-estate developments: real residential property prices evolution; impact from tourism on residential prices and risks from a sharper downturn in tourism; commercial real-estate prices and potential excess capacity risks.
- Banking sector: risks related to the pandemic and exposure to tourism and real-estate sectors; underlying financial strength (including good asset quality, liquidity and profitability); lending policies including use of government guarantees; likelihood of government support in the case of need.
- Credit strengths and weaknesses, and rating peer comparisons.
- Potential rating actions, drivers, sensitivities and assumptions.

## Definitions

### Per Capita income: GDP per capita (USD, mkt exchange rates)

Gross domestic product at current market prices in the local currency and converted into US dollars at annual *average* market exchange rates. GDP is the sum of consumption (private and government) *plus* gross fixed capital formation *plus* the change in inventories *plus* exports of goods and services *minus* imports of goods and services. Source: National authorities, international institutions.

### GDP Growth: Real GDP growth (%)

Annual percentage change (calendar year on calendar year) of a country's GDP in constant prices (ie, volume terms). Source: National authorities, international institutions, Datastream.

### Inflation: Consumer prices (annual average % change)

Annual percentage change in the national consumer price index (CPI). Note: these are period averages, *not* year-end to year-end. Source: National authorities, international institutions, mainly IMF IFS.

### Fiscal Balance: General government balance (% of GDP)

Consolidated balance of central government, provincial, regional and local governments, social security funds and other extra-budgetary funds; data may be presented on a cash or, more generally and preferably, on an accruals basis. Net lending is treated as an expenditure item and is *included* in the general government balance. Privatisation receipts are treated as a financing item and are *excluded* from the general government balance.

Note: in some countries data are available only for a fiscal year not coinciding with the calendar year. Where this is so, fiscal data are allocated to that calendar year in which the larger part of the fiscal year falls. For fiscal years running July-June, fiscal data are allocated to the year ending 30 June (ie, 1990/91 = 1991). Also note that for euro area countries, the figures may differ from those produced by Eurostat due to Fitch's treatment of UMTS receipts. Source: National authorities, international institutions.

### Fiscal Debt: General government debt (% of GDP)

Year-end debt stock of the general government (as defined above); data comprise domestic and externally contracted debt regardless of maturity, and include monetary authorities' debt issued on behalf of the government. Contingent liabilities such as guaranteed debt are excluded, except where these are specified as a line item in the budget. Source: National authorities, international institutions.

### External Balance: Current account balance plus net FDI (% of GDP)

Current account balance plus the net annual flow of foreign direct investment (US dollar value of FDI in the economy less resident FDI abroad), expressed as a percentage of GDP. Source: Fitch estimates based on national authorities and IMF.

### External Debt: Net external debt (% of GDP)

Calculated by deducting certain classes of gross external assets from a country's gross external debt (GXD). All figures are converted into US dollars at year-end exchange rates and are expressed as a percentage of GDP. A minus sign indicates that the country is a net external creditor (ie, contractual external claims exceed liabilities). For all countries, the definition of gross external assets mirrors the definition of GXD, ie, exclusion of equity FDI and portfolio equity investment.

Fitch has therefore modified the definition of gross external assets for emerging countries, as it previously used "narrow" gross external asset definition, which excluded non-bank private-sector external assets for these countries. Therefore, the claims of the non-bank private sector would be included, on the grounds that these are the product of rational portfolio management and generate an identifiable income stream for the country of origin. Note that for those emerging markets that have entered into Brady debt deals collateralised by US zero-coupon bonds, the US dollar value to date of that collateral is included in official assets. Source: IMF IFS, national authorities, international institutions.

### Economic Development: IMF Development Classification

Countries classified as Advanced Economies in the latest IMF World Economic Outlook are reported as Developed Markets (DM). Emerging Market and Developing Economies are reported as Emerging Markets (EM). Source: IMF World Economic Outlook, Fitch classifications for sovereigns not referenced in the IMF World Economic Outlook.



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