Iceland Outlook Revised To Positive On Strengthening Fiscal Position; 'A+/A-1' Ratings Affirmed

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Overview

- After subdued economic performance over 2024-2025, largely driven by one-off factors (varying fish catch level, a volcanic eruption, and closure of a domestic airline), we expect Iceland's economic outlook to firm up with growth accelerating to 2.0% in 2026 and 2.4% over the medium term.
- Iceland's authorities remain committed to fiscal discipline, targeting a balanced general government budget by 2027 under the adopted medium-term fiscal plan.
- Consequently, we forecast that Iceland's net general government debt will remain on a firm downward trajectory, reaching 35% of GDP by 2029. In our view, the pace of public sector deleveraging could prove even faster, for example, if growth outcomes turned out stronger or the authorities' focus on limiting spending growth contributed to stronger budget outturns.
- We revised the outlook on our long-term rating on Iceland to positive from stable. We affirmed our 'A+/A-1' sovereign ratings on Iceland.

Rating Action

On March 6, 2026, S&P Global Ratings revised the outlook on its long-term rating on Iceland to positive from stable. At the same time, we affirmed the long- and short-term foreign and local currency sovereign credit ratings at 'A+/A-1'. The transfer and convertibility assessment remains at 'AA-'.

Outlook

The positive outlook primarily reflects the potential for Iceland's budgetary performance to strengthen over the next two years, leading to a further sustained decline in net general government debt. We currently forecast it will decline to 35% of GDP by 2029, from an estimated 41% in 2025, as we project the authorities will achieve a balanced budget after 2027.

Downside scenario

We could revise the outlook back to stable if Iceland's growth performance was weaker than we expect, for example if persistently disruptive volcanic activity or higher fuel prices in the wake of conflict escalation in the Middle East hampered the country's tourism sector or if Iceland was more significantly affected by global trade tensions. We could also revise the outlook to stable under a scenario of weaker budgetary outturns, for instance, as a result of weaker growth outcomes or if Iceland was forced to sharply increase defense-related expenditure and did not put in place offsetting measures.

Upside scenario

We could raise the ratings if Iceland's fiscal performance proves stronger than we currently forecast. This could be the case, for example, if growth turns out faster; the authorities' efforts to contain spending growth deliver a higher impact; or the government privatizes additional assets leading to one-off fiscal windfalls that are used to pay down government debt. We also consider that continued gradual diversification of Iceland's economy with the emergence of new economic sectors--such as data centers, biotech, and pharmaceuticals--could enhance its resilience over the longer term.

Rationale

The outlook revision to positive primarily reflects our view of the potential for Iceland's fiscal performance to strengthen further, exceeding our current forecast. Under our existing baseline, we project Iceland's general government deficit will reduce to just 0.2% of GDP by 2027 from an estimated 1.0% of GDP last year, before moving to a balanced budget from 2028, broadly in line with the authorities' medium-term fiscal strategy. However, budgetary performance could prove even stronger under a scenario of more buoyant economic growth; stronger results from the government's focus on limiting nominal expenditure growth and rationalizing spending within departments; or if privatization of publicly-owned assets led to extra fiscal dividends that were used to reduce government debt.

Iceland's net general government debt was modest at end-2025, estimated at 41% of GDP, while authorities also took key steps to reduce contingent liability risks last year. We expect that a rebound in growth and a move toward balanced budgets from 2027-2028 will set Iceland's public debt on a steady downward path, with net general government debt reaching 35% of GDP in 2029. The structure of Iceland's public debt also remains favorable with only about 20% denominated in foreign currency and held by nonresidents with the rest denominated in Icelandic krona and held locally, mostly by pension funds. In 2025, the Icelandic authorities reached a key agreement with local pension funds to wind down state-owned Housing Financing Fund, the debt of which the government previously guaranteed. This underpins a reduction in contingent liability risks for the Icelandic government, since the amount of debt guaranteed by the government declined to about 2% of GDP at end-2025 from almost 20% of GDP at end-2024.

Our ratings on Iceland reflect the country's very high GDP per capita, at almost $100,000 in 2025, and a projected rebound in growth after one-off setbacks over 2024-2025, as well as Iceland's strong system of governance and institutional checks and balances. Moreover, Iceland is a country with one of the most equal income distributions in the world, as measured by a low Gini coefficient. It benefits from favorable demographics, availability of vast renewable energy resources, and a strong system of governance characterized by functioning checks and balances between key institutions.

Nevertheless, Iceland has a volatile, small, open economy, which is vulnerable to global developments outside its control. These include geopolitical risks, trade and tariff tensions, and fluctuating terms of trade, as well as natural events, such as volcanic activity. The small size of Iceland's economy constrains economic and monetary policy effectiveness, due to the influence of external factors largely outside the country's control.

Institutional and economic profile: Medium-term growth prospects remain strong and the new coalition government is considering closer ties with the EU

- We expect Iceland's growth to rebound to 2.0% in 2026 and further to 2.4% from 2027, driven by resilient domestic demand.
- Given Iceland's almost total reliance on domestic sources to meet its energy needs, we expect it will remain largely unaffected by external oil and gas market shocks.
- The coalition government is considering a referendum on reopening EU accession talks, potentially already this year.

The Icelandic economy experienced a number of one-off shocks over 2024-2025 with negative implications for growth. Output contracted by 1.3% in real terms in 2024 partly due to the impact of a volcanic eruption that affected residents of the southern town of Grindavik as well as the tourism sector. Growth was also restrained by weak fish catches in the first half of 2024, given the lower catch quota for capelin issued by the authorities (based on stock preservation). Although growth rebounded to 1.3% for 2025, it was still held back by the impact of other transitory developments. In particular, these included a key domestic airline, Play, going out of business at the end of September, with around 400 domestic staff laid off and reducing the available capacity on tourist routes from Europe. Additionally, one of the aluminum smelters, owned by U.S.-based Century Aluminum, had to partially stop production because of electrical equipment failure.

We expect Iceland's economic performance will firm up in 2026 as the transitory impact of last year's shocks wanes. Specifically, we anticipate that the slack created by Play Airlines folding will be gradually filled by other airlines, particularly since the peak tourism season in Iceland doesn't start until May. The authorities also expect that the Century Aluminum-owned smelter will resume production later this year. Finally, Iceland's Marine and Freshwater Research Institute has recommended a significant increase in allowable catch for capelin fish, which should support growth in the key marine sector. Overall, we expect that the above developments, coupled with continued strength in domestic private consumption and prospects for further loosening in monetary policy as inflation moderates will underpin growth of 2.0% in real terms in 2026.

We forecast that Iceland's growth will strengthen further to 2.4% annually from 2027. This is broadly in line with the Central Bank's and IMF's estimates of medium-term potential output growth rate. We also note that in recent years, Iceland has increasingly witnessed the emergence of high technology sectors, including biotechnology such as biosimilars, onshore and offshore fish farming, IT, data storage, and business services, which complement more traditional sectors such as marine products, tourism, and aluminum smelting. We expect this will be supportive of medium-term growth.

Despite challenges such as volcanic activity, Iceland's tourism sector has recovered strongly since the pandemic. Foreign passenger arrivals exceeded 2.2 million in 2023, a more than 30% increase over 2022, and rose to 2.3 million in 2024, despite volcanic activity affecting tourist arrivals. Tourist numbers are now more than 10x those seen in 2000, but still lower than the 2018 peak of 2.4 million. Preliminary data suggests tourist arrivals remained unchanged year on year in 2025 with about 2.3 million arrivals, although there is evidence to suggest that those visiting Iceland tend to stay longer and spend more than previously. We expect the tourism sector to continue growing over the medium term, although the pace will likely be notably weaker than trends exhibited pre-pandemic.

Iceland's renewable energy sources shield the economy from fluctuations in global energy prices. This is because the country produces most of its electricity from renewable sources (about 70% from hydropower and 30% from geothermal plants), while geothermal energy provides almost all heating. Imported petroleum products, largely for transport and vessels, constitute only 10%-15% of the energy mix, and the country is making strides toward transitioning to electric vehicles. The new government is focused on increasing energy and electricity supply, and affordable energy prices and a cool climate are leading to an increase in investments in data centers in Iceland. Iceland also benefits from a favorable demographic profile compared with European peers. High birth rates and net inward migration have increased the population almost 20% over the past decade, although recently the growth rate has begun to slow.

There are also downside risks to our baseline economic scenario for Iceland. In particular, the recent escalation of conflict in the Middle East could have a lingering impact on the energy markets, in particular upward pressure on oil prices. While Iceland is largely self-sufficient in terms of meeting its energy needs through domestic renewable sources, the tourism sector remains significantly dependent on visitors arriving by air, and higher fuel prices could raise flight ticket costs, with a negative impact on visitor numbers.

Iceland is governed by a three-party coalition that commands a majority in Parliament. Since snap elections in November 2024, the coalition holds 36 out of 63 seats in Parliament and is centered around the Social Democratic Alliance (SDA) led by Kristrun Frostadottir . The coalition also includes Vidreisn (center-right Reform Party), and the center-left People's Party. The government agenda remains focused on economic growth, job creation, expanding energy supply, and immigration policy, while maintaining environmental protection and prudent public finances (in particular transitioning to a balanced government budget from 2027 and reducing net general government debt to 30% of GDP in 10 years' time).

Given the unpredictable global geopolitical landscape, the coalition government plans a referendum on whether Iceland should re-open talks to join the EU. In February 2026, Iceland's prime minister indicated that the referendum could take place already in the coming months. We understand that, in any case, there will be two referendums: one in the near future on whether to resume EU accession talks and, if accession negotiations are resumed, another referendum at the end of the process once the full accession conditions are settled. While not a member of the EU, Iceland is already a member of the European Free Trade Association and the European Economic Area. If it joins the EU, Iceland will likely have to adhere to the EU's common fishing policy, which was a sticking point in discussions over a decade ago when authorities suspended ongoing accession talks.

More broadly, we consider Iceland's institutional arrangements as a key rating strength, with functioning checks and balances between government bodies. The country's swift and effective response to recent shocks, such as the pandemic and volcanic eruptions, underpins our view of generally effective and stable policymaking.

Nevertheless, Iceland will have to navigate U.S. tariffs on Icelandic goods, as well as other policies. This includes pressures on North Atlantic Treaty Organization (NATO) countries to raise defense-related expenditure. Iceland is a founding member of NATO, and NATO alliance countries are under pressure from the U.S. to raise defense-related expenditure to at least 2%-3% of GDP per year. Iceland is the only member of NATO that does not have a standing army, so it might be able to contain such pressures, although it will likely have to increase spending on defense-related infrastructure (as opposed to pure military expenditure). The country's location remains strategically important, due to its proximity to the Arctic, especially at a time when melting ice could create new shipping routes. The U.S. Naval Air Station in Keflavik, now partially managed by Icelandic authorities, reopened following closure in 2006 and is now being expanded.

Flexibility and performance profile: Fiscal and balance-of-payments positions are on an improving trend, but monetary policy effectiveness is more limited

- We expect Iceland's general government budget will move to a balance from 2028, broadly in line with the government's medium-term fiscal strategy.
- Although higher current account deficits emerged over 2024-2025, these largely reflect imports of computer equipment related to data-center investments, which were not financed by debt.
- In our view, Iceland's monetary policy effectiveness remains structurally constrained, given the small size of the economy, reliance on foreign imports, and historic volatility of the Icelandic krona, making inflation trends significantly dependent on foreign developments outside the central bank's control.

Since the pandemic's impact on fiscal metrics in 2020 and 2021, Icelandic authorities have overseen substantial fiscal consolidation within a relatively short period. We estimate that the 2025 general government deficit was a modest 1.0% of GDP, down from 3.4% in 2024, when fiscal performance was weakened by the volcanic eruption affecting residents of the southern town of Grindavik and the authorities stepping in to provide support (through property repurchases, housing and rent support, and other channels). We forecast deficits will continue to trend down with balanced budgets projected from 2028, broadly in line with Iceland's medium-term fiscal strategy. Iceland's public finances have also benefited from the sale of the remaining government stake in Islandsbanki in May 2025, which netted Icelandic krona (ISK) 91 billion (about 1.8% of GDP). Under our baseline forecast, we expect Iceland's net general government debt to decline to 35% of GDP by 2029 from an estimated 41% of GDP at end-2025.

The 2026 budget focuses on additional revenue-side measures to aid fiscal consolidation, while the authorities also aim to limit the pace of expenditure growth. Key revenue measures include fisheries levy reform (+0.1% of GDP); higher excise duties on imported vehicles (+0.2% of GDP); and implementing a kilometer-based fee on all cars, including petrol and diesel ones, from January 2026 with the previous fuel excises repealed as part of the reform (+0.1% of GDP approximately). Meanwhile, the government remains focused on limiting the pace of expenditure growth through better management of public procurement, spending prioritization in the healthcare system, and shortening the eligibility period for receiving continuous unemployment benefits in order to bolster incentives to work and bring the system in Iceland more in line with other Nordic countries.

Following the settlement of the Housing Financing Fund (HFF), we view Iceland's contingent liabilities as limited. In June 2025, the government reached a landmark agreement with pension funds to settle the government-guaranteed obligations of the HFF and close the institution. HFF used to extend affordable housing loans to the Icelandic population but has faced losses requiring the government to step in with capital injections. Although new HFF lending has long been discontinued, its outstanding inflation-indexed bonds were not set to mature until 2044 and did not have provisions for early redemption, while outstanding loans continued to be repaid, generating significant interest rate mismatch. It therefore required the government to negotiate a tailored solution with the local pension funds who owned the stock of HFF's outstanding securities while Iceland's parliament passed a special resolution paving the way for the settlement of HFF.

Government-guaranteed debt is now close to 2% of GDP, down from almost 20% of GDP at end-2024. HFF's settlement value was agreed at ISK651 billion (13% of GDP). To finance the transaction, the government issued nine new series of bonds, amounting to ISK487 billion, supplemented by €378 million (ISK55 billion) of cash, and a small amount of other securities. These instruments were transferred to the principal creditors of HFF, primarily the Icelandic pension funds, and in exchange, the treasury received HFF assets. HFF's outstanding bonds were subsequently retired, and loans provided by the HFF to the government were repaid. The net impact of this settlement on our calculations of net general government debt is minimal because we already included HFF's projected future equity shortfall in our calculations for general government debt.

Iceland's debt profile has also improved significantly over the past decade. More than 80% of gross government debt is now held domestically and only about 20% is denominated in foreign currency. In line with previous policies, authorities have placed much of the proceeds of foreign currency debt issuance in deposits at the central bank, bolstering foreign currency reserves. The government covered its large budget deficits in 2020 and 2021 predominantly by issuing debt in the domestic market, underscoring its depth. In March 2024, the government issued its first €750 million green bond in the international market and, in June 2024, Iceland issued a €50 million "gender bond" with a 3.4% coupon. It was the first gender bond globally to be issued by a sovereign and the proceeds are being used to promote gender equality. In May 2025, the government issued a €750 million five-year bond at a yield of 2.672%.

Iceland's inflation fell to 4.1% in 2025 from 5.9% in 2024, although it exhibited an uptick to 5.2% year-on-year in January 2026. This remains above the central bank's target of 2.5%, but we expect inflation to gradually moderate given that the uptick in recent months was partially driven by transitory factors, such as higher vehicle levies on electric cars. Since October 2024, the central bank has made cumulative cuts of 200 basis points (bps), with the most recent move being a 25-bps cut to 7.25% in November 2025. The central bank kept rates at that level at its February meeting. As inflation continues to moderate, we expect the monetary policy should ease in the second half of this year, but higher global oil prices in light of the ongoing Middle East conflict present upside risks to inflation.

Iceland has continued to accumulate net foreign currency reserves in recent years. The central bank's international reserves stood at $7.7 billion at end-2025 (20% of GDP), or over four months of current account payments. In our view, this continues to provide the central bank with policy headroom. Fundamentally, however, we view Iceland's monetary policy as constrained because the underlying economy represents one of the smallest currency areas globally and domestic inflation has historically been heavily influenced by developments abroad. The country's real effective exchange rate also tends to fluctuate over the economic cycle and can be subject to valuation swings, exacerbating the cyclicality inherent in the economy.

We estimate that Iceland's current account deficit widened to 4.1% of GDP in 2025 from 2.8% of GDP in 2024, but the rise mostly reflects data center-related imports that are not debt financed. According to the authorities, excluding the data center-related imports, Iceland's current account was close to balance last year. We also note that net foreign direct investment inflows more than covered the current account deficits over 2023-2024, underpinning growth in international reserves and a decline in net external debt despite headline reported deficits. Iceland remains a favorable destination for data centers owing to the climate (cool temperatures allowing equipment to cool) and attractive energy prices. The national income accounts data for the fourth quarter of 2025 suggest that data-center investments continued to slow toward the end of 2025. We expect this trend to be sustained over the forecast and thus project a reduction of headline current account deficits.

We project Icelandic banks will remain in a strong position. Supported by growing lending volumes, high margins, and low credit losses, earnings continued to rise in 2025. Although we anticipate net interest income tailwinds will subside over the next two years, we forecast profitability will remain solid, supported by high cost-efficiency and healthy ancillary income growth. Banks demonstrate sound access to wholesale funding markets and have lengthened their funding maturity profiles over recent years. We expect incumbent banks will maintain large capital buffers comfortably above regulatory requirements, despite recent, and potentially upcoming, acquisitions and capital optimization efforts. In addition to the full privatization of Islandsbanki, 2025 also saw Landsbankinn's acquisition of insurance company TM tryggingar hf, and ongoing merger discussions between Arion Bank and Kvika banki hf.

Iceland--Selected Indicators

	2020	2021	2022	2023	2024	2025	2026bc	2027bc	2028bc	2029bc
Economic indicators (%)										
Nominal GDP (bil. ISK)	2,984.0	3,331.5	3,947.0	4,373.1	4,578.4	4,955.6	5,211.4	5,475.2	5,746.8	6,031.8
Nominal GDP (bil. $)	22.0	26.2	29.2	31.7	33.2	38.6	41.6	43.3	44.6	45.9
GDP per capita (000s $)	61.5	71.9	77.7	82.6	85.2	97.7	103.8	106.3	107.8	109.3
Real GDP growth	(6.7)	5.2	8.9	5.0	(1.3)	1.3	2.0	2.4	2.4	2.4
Real GDP per capita growth	(7.8)	3.3	5.9	2.7	(2.7)	(0.2)	0.5	0.9	0.9	0.9
Real investment growth	(6.6)	13.5	15.3	6.2	6.6	4.0	(2.0)	1.0	1.5	1.5
Investment/GDP	21.1	22.8	24.2	25.4	26.2	26.6	24.8	24.4	24.1	23.9
Savings/GDP	22.9	20.2	22.5	24.2	23.5	22.5	22.0	21.6	21.5	21.4
Exports/GDP	34.1	37.4	46.7	44.0	42.5	40.1	39.1	39.1	39.1	39.2
Real exports growth	(30.4)	12.4	26.1	3.9	(2.2)	1.0	1.0	3.0	3.0	3.0
Unemployment rate	6.3	5.8	3.6	3.4	3.4	4.4	4.8	4.5	4.0	3.8
External indicators (%)										
Current account balance/GDP	1.9	(2.6)	(1.7)	(1.2)	(2.8)	(4.1)	(2.7)	(2.7)	(2.6)	(2.5)
Current account balance/CARs	4.8	(6.2)	(3.4)	(2.5)	(5.9)	(9.6)	(6.5)	(6.5)	(6.2)	(5.9)
CARs/GDP	38.7	41.3	50.4	48.9	47.6	42.8	42.3	42.2	42.2	42.3
Trade balance/GDP	(2.7)	(4.0)	(5.1)	(6.7)	(7.1)	(7.3)	(6.8)	(6.8)	(6.8)	(6.8)
Net FDI/GDP	(2.3)	1.7	3.9	4.7	6.7	1.5	3.8	3.8	3.8	3.8
Net portfolio equity inflow/GDP	(3.9)	(4.5)	(3.1)	(3.9)	(7.6)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Gross external financing needs/CARs plus usable reserves	79.6	91.8	92.6	99.6	104.0	104.0	99.1	99.8	100.3	100.9
Narrow net external debt/CARs	64.8	59.2	48.3	47.3	50.0	43.0	42.7	43.6	44.6	45.7

Iceland--Selected Indicators

Narrow net external debt/CAPs	68.1	55.7	46.7	46.2	47.2	39.2	40.1	40.9	42.0	43.1
Net external liabilities/CARs	(99.3)	(111.7)	(52.1)	(76.4)	(106.4)	(107.6)	(96.8)	(89.1)	(82.1)	(75.4)
Net external liabilities/CAPs	(104.4)	(105.1)	(50.4)	(74.5)	(100.5)	(98.1)	(90.9)	(83.6)	(77.3)	(71.2)
Short-term external debt by remaining maturity/CARs	47.7	39.9	33.8	35.0	36.3	34.7	36.2	35.7	35.5	35.2
Usable reserves/CAPs (months)	10.0	6.7	5.6	4.5	4.2	4.2	5.0	4.8	4.7	4.5
Usable reserves (Mil. $)	6,420.8	7,079.6	5,893.3	5,800.6	6,403.0	7,754.8	7,754.8	7,754.8	7,754.8	7,754.8
Fiscal indicators (general government %)										
Balance/GDP	(8.4)	(7.5)	(3.3)	(1.9)	(3.4)	(1.0)	(0.8)	(0.2)	0.0	0.0
Change in net debt/GDP	5.8	8.0	6.5	3.2	0.9	0.8	0.8	0.5	0.1	0.1
Primary balance/GDP	(6.1)	(5.2)	0.7	2.1	0.2	2.4	2.4	2.9	2.8	2.6
Revenue/GDP	40.9	40.0	41.4	42.2	43.1	42.7	42.5	42.5	42.5	42.5
Expenditures/GDP	49.3	47.5	44.7	44.0	46.5	43.7	43.3	42.7	42.5	42.5
Interest/revenues	5.7	5.7	9.6	9.4	8.1	8.0	7.5	7.3	6.7	6.2
Debt/GDP	59.2	61.0	56.7	53.8	54.1	51.5	49.8	47.9	45.7	43.7
Debt/revenues	144.8	152.5	137.0	127.7	125.4	120.6	117.2	112.6	107.6	102.8
Net debt/GDP	43.3	46.8	46.0	44.8	43.6	41.1	39.9	38.4	36.7	35.1
Liquid assets/GDP	15.8	14.2	10.7	9.1	10.4	10.5	9.9	9.5	9.0	8.6
Monetary indicators (%)										
CPI growth	2.8	4.4	8.3	8.7	5.9	4.1	4.5	2.8	2.5	2.5
GDP deflator growth	4.3	6.2	8.8	5.5	6.1	6.9	3.1	2.6	2.5	2.5
Exchange rate, year-end (ISK/$)	127.2	130.4	142.0	136.2	138.2	125.2	125.2	127.7	130.3	132.9
Banks' claims on resident non-gov't sector growth	4.7	(7.4)	11.5	6.6	7.9	7.0	5.5	5.0	5.0	5.0
Banks' claims on resident non-gov't sector/GDP	136.5	113.2	106.6	102.5	105.7	104.5	104.8	104.7	104.8	104.8
Foreign currency share of claims by banks on residents	13.3	14.1	13.7	11.5	12.1	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	10.8	11.2	11.4	11.0	9.6	9.7	N/A	N/A	N/A	N/A
Real effective exchange rate growth	(10.3)	6.1	6.5	(0.8)	3.6	N/A	N/A	N/A	N/A	N/A

Sources: Macrobond (Economic, Monetary, Fiscal and External indicators); Statistics Iceland (Economic Indicators), Central Bank of Iceland (External Indicators), Statistics Iceland, Central Bank of Iceland (Fiscal Indicators), and Central Bank of Iceland, IMF (Monetary Indicators).

Adjustments: Historical fiscal and debt data excludes the impact of Housing Financing Fund (until the resolution in mid-2025 we viewed HFF as contingent liability whereas Statistics Iceland included HFF's debt directly as part of general government debt).

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other

Iceland--Selected Indicators

depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A- Not applicable. ISK--Icelandic krona. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Iceland--Rating Component Scores

Key rating factors	Score	Explanation
Institutional assessment	2	Generally strong, but relatively shorter track record of policies that deliver sustainable public finances and consistently balanced economic growth over the long term. Generally effective checks and balances and free flow of information through society. Statistical information is generally timely and reliable.
Economic assessment	2	Based on GDP per capita ($) as per the Selected Indicators table above.
		Although diversifying, the economy is still concentrated on tourism, fishing, and aluminum. Metal and fishing sectors each represent about 20% and tourism generally over one-third of the export base. We estimate revenue from tourism at close to 20% of GDP; these could be volatile in cases of adverse economic developments in Iceland's main trading partners, a more pronounced shift in global travel preferences, or in case of a natural disaster.
External assessment	2	As per Selected indicators table.
		Iceland's net international investment position is more favorable than the narrow net external debt position by over 100% of current accounts receipts (CARs), as per Selected Indicators table.
Fiscal assessment: flexibility and performance	2	Based on change in net general government debt (% of GDP) as per Selected Indicators table.
Fiscal assessment: debt burden	3	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue) as per Selected Indicators table.
Monetary assessment	4	The krona is largely floating following the removal of capital controls in 2017, albeit with a short track record. The central bank has broad operational independence and uses market-based monetary instruments. Given the removal of capital controls and accumulation of extra net foreign exchange reserves, the central bank can act as lender of last resort for the financial system. However, Iceland can exhibit a volatile real effective exchange rate over the economic cycle.
Indicative rating	aa-	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	-1	Iceland is vulnerable to adverse external developments outside its control, such as geopolitical risks, trade and tariff tensions, environmental events, and fluctuating terms-of-trade (given the concentration of trade in a few key sectors), which are not fully captured in the indicative rating.

Iceland--Rating Component Scores

Key rating factors	Score	Explanation
Final rating		
Foreign currency	A+	Default risks do not apply differently to foreign- and local-currency debt.
Notches of uplift	0	
Local currency	A+	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings List, Feb. 20, 2026
- Sovereign Ratings History, Feb. 19, 2026
- Sovereign Ratings Score Snapshot, Feb. 11, 2026
- Sovereign Risk Indicators, Dec. 11, 2025. Interactive version available at http://www.spratings.com/sri.
- Banking Industry Country Risk Assessment: Iceland, Dec. 19, 2025

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see "Related Criteria"). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Rating Component Scores above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see "Related Criteria").

Ratings List

Ratings List		
Ratings Affirmed; Outlook Action		
	To	**From**
Iceland		
Sovereign Credit Rating	A+/Positive/A-1	A+/Stable/A-1
Ratings Affirmed		
Iceland		
Transfer & Convertibility Assessment		
Local Currency	AA-	
Senior Unsecured	A+	
Short-Term Debt	A-1	