Iceland

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This report does not constitute a rating action.

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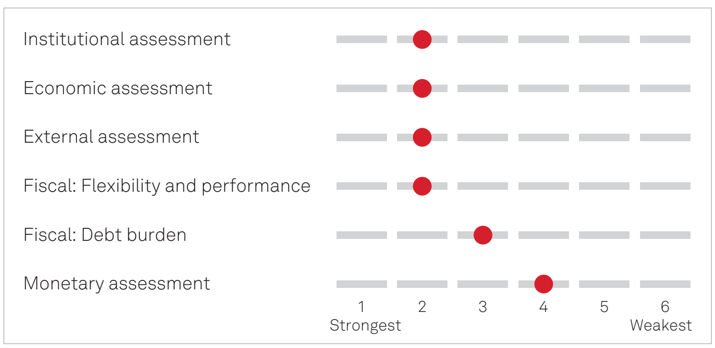
Ratings Score Snapshot



Sovereign credit rating

Foreign currency
A+/Positive/A-1

Local currency
A+/Positive/A-1

Credit Highlights

Overview

Institutional and economic profile	Flexibility and performance profile
Iceland has strong institutional arrangements and very high per capita income levels, but the economy remains small in absolute terms and centered around tourism, fishing, and energy-intensive industries.	Iceland's fiscal and external debt levels are contained, and we forecast that both fiscal and current account deficits will moderate through 2029.
--We forecast Iceland's growth at 1.5% in 2026 (up from 1.1% in 2025), followed by a gradual acceleration to 2.5% by 2028 as the impact of transitory shocks (a domestic airline going out of business in the second half of 2025; aluminum smelter temporarily suspending production; and higher imported oil prices) wanes and external environment improves.	--We project Iceland's general government deficit will reduce to just 0.5% of GDP by 2028 from 2.1% of GDP in 2026 as growth strengthens and the authorities implement additional revenue-raising measures, while also maintaining focus on containing spending under the adopted medium-term fiscal plan.
--At a projected $107,000 for 2026, Iceland's per capita GDP is the seventh highest among the 142 sovereigns that we rate.	--Iceland remains in a net external asset position while the headline 3.5% of GDP average current account deficit over 2024-2025 primarily reflects import-heavy data center investments, which are financed through foreign direct investment (FDI) rather than debt. As these investments taper off, we project current account deficits will average less than 1% of GDP over 2027-2029.
--A consultative referendum held on Aug. 29 saw the majority voting against Iceland resuming EU accession talks.	--The Central Bank of Iceland (CBI) has been in a tightening cycle throughout 2026, raising the key interest rate three times by a cumulative 75 basis points to 8%. We forecast inflation will average 5.7% in 2026, up from 4.1% last year.

S&P Global Ratings does not expect any significant change in Iceland's foreign policy direction after the vote against Iceland resuming EU accession talks in an Aug. 29 consultative referendum. Concerns over the impact of EU membership on Iceland's key fishing industry appears to be one of the main determinants of the referendum's outcome. Nevertheless, we do not expect any radical change in Iceland's policy direction from the referendum. Iceland has been part of the European Economic Area (EU single market extended to non-EU members) since 1994 and a member of the Schengen border-free travel zone since 2001, aligning with the EU on many foreign policy positions, including, for example, support to Ukraine.

We forecast that Iceland's fiscal position will continue to strengthen. Budgetary deficits and net general government debt will decline as a percentage of GDP over the next four years. This consolidation path will be underpinned by a rebound in economic activity in addition to both revenue- and expenditure-side measures adopted by the government. We project Iceland's net general government debt will total just under 45% of GDP by the end of 2026, before moderating to 41% of GDP by 2029. We view this as a modest level of government debt compared with peers' at a similar level of economic development, in particular in continental Europe.

Iceland's economy has proven resilient to the fallout from the Middle East conflict this year. Despite a significant upswing in prices of oil (all of which Iceland imports from abroad), its terms of trade actually strengthened over the first half of 2026. Aluminum articles and marine products each constitute around one-third of Iceland's goods exports and have been the key contributors to stronger terms of trade: in year-on-year terms, aluminum prices were 31% higher over the first eight months of 2026 compared with 2025 while the producer price index for marine products published by Statistics Iceland recorded a 20% growth in year-on-year terms (based on seven months' data). Meanwhile, foreign tourist arrivals have continued to grow even though Iceland is already an expensive travel destination, which has been further exacerbated by higher oil prices (the vast majority of tourists arrive to Iceland by air via Keflavik International Airport). In our baseline, we project Iceland's economy will grow by 1.5% in real terms this year before growth gradually accelerates toward 2.5% from 2028 as the external environment strengthens and looser monetary policy supports domestic consumption and business investment.

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, given that we project the authorities will achieve almost a balanced general government budget after 2027.

Downside scenario

We could revise the outlook 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 is faster, the authorities' efforts to contain spending growth deliver a higher impact, or the government privatizes additional assets and that leads 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

Institutional and economic profile: Stronger economic growth from 2027, increasingly driven by new economic sectors such as data centers, pharma, and land-based aquaculture

A 53% majority of voters rejected a proposal to restart EU accession talks in a key consultative referendum held in August 2026. The results demonstrated significant divergence of views among the Icelandic electorate with voters in the greater Reykjavik area backing restarting EU accession talks while voters in rural areas mostly voted against. Iceland already started EU accession talks in 2009, shortly after the global financial crisis, but these were subsequently suspended in 2013, on concerns regarding EU accession's impact on Iceland's key fishing industry. It appears that similar concerns around the fishing industry were a key factor behind the 2026 outcome.

We do not expect the outcome of the referendum to alter Iceland's broader international policy direction or its existing close relations with the EU. We note that Iceland has already effectively been closely aligned with the EU on many policies, given that it has been part of the European Economic Area since 1994 and a member of the Schengen border-free travel zone since 2001. We expect the close relationship between Iceland and the EU to endure, despite the referendum result. Following the outcome, Iceland's Prime Minister Kristrun Frostadottir affirmed the intention to continue strengthening ties within the European Economic Area mechanisms. We also note that Iceland backs the EU's position on Ukraine and in March 2026 agreed to a formal security and defense partnership with the EU.

A three-party coalition commands a majority in the Althingi (the Icelandic parliament), and we do not foresee significant changes to its previously announced policy priorities. Since snap elections in November 2024, the coalition holds 36 of 63 seats in the Althingi and is centered around the Social Democratic Alliance (SDA). 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 targeting a transition to a balanced government budget from 2027 and reducing net general government debt to 30% of GDP in 10 years' time).

More broadly, Iceland's institutional arrangements remain 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. We also note that Iceland is a country with one of the most equal income distributions in the world, as measured by a low Gini coefficient (which measures the inequality of wealth distribution within a country).

We have revised down our growth forecast for 2026 to 1.5% from the 2.0% we projected in March. Despite the rise in oil prices in the aftermath of the start of conflict in the Middle East, terms of trade improved for Iceland in the first half of 2026 thanks to higher prices for aluminum and marine products. Meanwhile, tourist arrivals have also proven resilient with a likely uptick in August when additional visitors were drawn to Iceland to observe the full solar eclipse. Nevertheless, there have been signs of weaker private consumption in the second quarter. An uptick in Iceland's inflation throughout 2026 (inflation measured 5.6% year on year in August, notably above the CBI's 2.5% target) prompted the CBI to tighten monetary policy on three occasions, likely weighing on domestic consumption and investments. Meanwhile, previously suspended production (due to electrical equipment fault) at the Century Aluminum-controlled aluminum smelter in Grundartangi restarted in April, but we understand that it takes several months to reach full capacity.

Iceland's growth should strengthen to 2% in 2027, assuming a broad stabilization in external environment without additional shocks, such as protracted conflict in the Middle East. We expect a gradual moderation in inflation and a looser monetary policy should contribute to stronger consumption and investment growth. We think that growth will be increasingly driven by new economic sectors, such as data center services, pharmaceuticals, and land-based aquaculture. Although fishing and tourism will likely also contribute, we expect the dynamic in these more traditional sectors to be more muted. Fishing tends to be volatile with significant variations in catch year to year, owing partly to the fishing quota set to avoid overfishing. Tourism is facing capacity constraints with accommodations typically being full in Iceland during the peak summer months.

Despite our baseline expectation of a near-term rebound in growth, we continue to see several risks. These include:

- Global geopolitical developments. Although the Middle East war does not appear to have significantly affected the Icelandic economy so far, we consider that, under a scenario of a more prolonged conflict and persistently higher oil prices, the economy could be more significantly affected through the tourism and domestic consumption channels.
- Unpredictable U.S. trade policy and changes to its import tariffs. Iceland has not been included on the list of 60 countries on which the U.S. government announced an imposition of tariffs in July 2026, but it remains unclear if that could change in the future.
- Domestic wage settlements. Iceland has a highly unionized labor market (over 90% of employees belong to one of the labor unions) with a history of wage settlements exceeding inflation. Consequently, if the currently elevated inflation were to lead to a widespread renegotiation of previously agreed settlements, in turn leading to above-inflation pay rises, it could undermine the economy's competitiveness and ultimately complicate the task of bringing inflation back on target.

In our view, medium-term growth prospects look favorable, given Iceland's demographics and renewable energy sources, which shield the economy from fluctuations in global energy prices. Iceland produces most of its electricity from renewable sources (about 70% from hydropower and 30% from geothermal plants), while almost all heating comes from geothermal energy. Iceland is still exposed to global oil prices through imports of petroleum products, largely for transport and vessels, but they constitute only 10%-15% of the energy mix, and the country is making strides toward transitioning to electric vehicles. 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.

Flexibility and performance profile: We forecast Iceland's fiscal and current account deficits will decrease through 2029

Since the pandemic's impact on fiscal metrics in 2020 and 2021, Icelandic authorities have overseen substantial fiscal consolidation within a relatively short period. In 2025 the general government deficit was 2.4% of GDP, down from 3.8% in 2024, when fiscal performance was weakened by the volcanic eruption affecting residents of the southern town of Grindavik and the authorities stepped in to provide support (for example, through property repurchases, or housing and rent support). We forecast deficits will continue to trend downward with only marginal deficits for the general government sector of 0.5% of GDP projected from 2028, broadly in line with Iceland's medium-term fiscal strategy. Iceland's public finances have also recently benefited from the sale of the remaining government stake in Islandsbanki in May 2025, which netted Icelandic krona (ISK) 91 billion (approximately €650 million; about 1.8% of GDP). Our baseline foresees Iceland's net general government debt declining to 41% of GDP by 2029 from an estimated 45% of GDP at end-2025. We view these debt levels as modest in comparison with those of other developed market peers.

Iceland's 2026 budget has focused 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 a fisheries levy reform (which added 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 Iceland's system 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 that owned the stock of HFF's outstanding securities, while the Althingi passed a special resolution paving the way for the settlement of HFF. Consequently, government-guaranteed debt is now close to 2% of GDP, down from almost 20% of GDP at end-2024.

Iceland's debt profile has also improved significantly over the past decade. As of end-July 2026, just under 80% of gross government debt is held domestically with 17% 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 CBI, 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 2026, the government issued a €500 million five-year bond at a yield of 3.352%.

Our expectation before the Middle East conflict was that Iceland's inflation would moderate throughout 2026, but it has remained on an upward trend. Inflation averaged 4.1% in 2025, before rising to a peak of 5.6% year on year in August. Private services (including airfare prices, which higher oil prices have pushed up) and housing have been key contributors. Household and business surveys indicate that inflation expectations also remain above the CBI's 2.5% target. Consequently, the CBI has so far this year reacted by raising its key interest rate on three occasions by a cumulative 75 basis points to 8%. We forecast inflation will average 5.7% in 2026, before gradually falling thereafter, assuming that external environment stabilizes and there are no additional spikes in the price of oil. As inflation continues to moderate, we expect the monetary policy will be gradually eased next year.

The CBI maintains international reserves that cover more than four months of current account payments, which continues to provide the central bank with policy headroom. The CBI's international reserves stood at $7.7 billion at end-July 2026 (18% of GDP), or around 4.8 months of current account payments. 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, which are outside the CBI's control. 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.

Although Iceland posted average annual current account deficits of 3.5% of GDP over 2024-2025, these mostly reflect 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 cumulatively net FDI inflows more than covered the current account deficits over 2023-2025, while CBI international reserves have grown and Iceland's net external debt exhibited only a slight uptick. Iceland remains a favorable destination for data centers owing to the climate (cool temperatures allowing equipment to cool) and attractive energy prices. We expect the data center-related investments to gradually taper off over the next four years. Therefore, Iceland's headline current account deficit should moderate to under 1% of GDP by 2028.

We project the Icelandic banking sector to remain resilient. Banks' earnings continued to rise in the first half of 2026, supported by high margins and growing lending volumes, partly driven by inflation-indexed lending practices. We forecast that robust net interest income, coupled with healthy ancillary income and high cost-efficiency, will continue to support profitability over the next two years. Conversely, restrictive monetary policy and high interest rates have resulted in a cooling housing market, with negative spillover into the construction sector. The asset quality of banks' exposure to the sector has consequently weakened, leading banks to report higher loan loss provisioning in the first half of 2026. Even so, we consider incumbent banks highly resilient, underpinned by strong earnings capacity and substantial capital and liquidity buffers that remain comfortably above regulatory requirements. Additionally, banks demonstrate sound access to wholesale funding markets and have successfully lengthened their funding maturity profiles in recent years.

Iceland--Selected Indicators

	2020	2021	2022	2023	2024	2025	2026bc	2027bc	2028bc	2029bc

Iceland--Selected Indicators

Economic indicators (%)										
Nominal GDP (bil. ISK)	2,984.0	3,331.5	3,947.0	4,367.2	4,576.6	4,941.2	5,276.1	5,543.1	5,795.3	6,059.0
Nominal GDP (bil. $)	22.0	26.2	29.2	31.7	33.2	38.5	42.9	45.4	46.5	47.7
GDP per capita (000s $)	61.5	71.9	77.7	82.5	85.2	97.7	107.1	111.7	112.8	113.9
Real GDP growth	(6.7)	5.2	8.9	5.2	(0.9)	1.1	1.5	2.0	2.5	2.5
Real GDP per capita growth	(7.8)	3.3	5.9	2.9	(2.4)	(0.2)	0.0	0.5	1.0	1.0
Real investment growth	(6.6)	13.5	15.3	6.3	6.0	4.8	3.3	(5.0)	1.0	1.5
Investment/GDP	21.1	22.8	24.2	25.4	26.2	26.8	26.2	24.0	23.5	23.0
Savings/GDP	22.9	20.2	22.5	23.9	22.8	22.8	23.5	22.8	22.9	22.6
Exports/GDP	34.1	37.4	46.7	44.0	42.5	40.4	38.9	38.9	39.1	39.3
Real exports growth	(30.4)	12.4	26.1	4.7	(1.6)	1.5	1.0	3.0	2.5	2.5
Unemployment rate	6.3	5.8	3.6	3.4	3.4	4.3	5.7	5.0	4.5	4.2
External indicators (%)										
Current account balance/GDP	1.9	(2.6)	(1.7)	(1.4)	(3.4)	(4.0)	(2.7)	(1.2)	(0.6)	(0.4)
Current account balance/CARs	4.8	(6.2)	(3.4)	(2.9)	(7.3)	(9.1)	(6.3)	(2.9)	(1.4)	(1.0)
CARs/GDP	38.7	41.3	50.3	49.0	47.1	44.1	42.5	42.2	42.2	42.3
Trade balance/GDP	(2.7)	(4.0)	(5.1)	(6.7)	(7.1)	(7.9)	(7.3)	(6.3)	(6.0)	(5.9)
Net FDI/GDP	(2.3)	1.7	3.9	5.4	7.9	(0.3)	4.5	3.0	2.0	2.0
Net portfolio equity inflow/GDP	(3.9)	(4.5)	(3.1)	(3.9)	(7.9)	(3.2)	(1.5)	(2.0)	(2.0)	(2.0)
Gross external financing needs/CARs plus usable reserves	79.6	91.8	92.6	99.9	105.0	103.7	100.2	98.6	98.0	98.0
Narrow net external debt/CARs	64.8	59.2	48.3	47.3	50.5	52.8	50.6	49.3	49.3	49.2
Narrow net external debt/CAPs	68.1	55.7	46.7	46.0	47.0	48.4	47.6	47.9	48.7	48.7
Net external liabilities/CARs	(99.3)	(111.7)	(52.1)	(75.5)	(106.9)	(110.9)	(95.3)	(87.1)	(83.9)	(80.5)
Net external liabilities/CAPs	(104.4)	(105.1)	(50.4)	(73.4)	(99.6)	(101.7)	(89.6)	(84.6)	(82.7)	(79.7)
Short-term external debt by remaining maturity/CARs	47.7	39.9	33.8	34.9	36.6	33.8	36.4	37.0	36.6	36.0
Usable reserves/CAPs (months)	10.0	6.7	5.6	4.4	4.2	4.2	4.8	4.9	4.8	4.7
Usable reserves (Mil. $)	6,420.8	7,079.6	5,893.3	5,800.6	6,403.0	7,732.0	8,010.6	8,010.6	8,010.6	8,010.6
Fiscal indicators (general government %)										
Balance/GDP	(8.4)	(7.5)	(3.3)	(1.7)	(3.8)	(2.4)	(2.1)	(1.0)	(0.5)	(0.5)
Change in net debt/GDP	5.8	8.0	6.5	3.2	0.9	5.4	1.7	1.6	0.6	0.6
Primary balance/GDP	(6.1)	(5.2)	0.7	2.3	(0.3)	1.9	2.6	3.1	2.8	2.7

Iceland--Selected Indicators

Revenue/GDP	40.9	40.0	41.4	42.4	42.7	42.7	42.5	42.5	42.5	42.5
Expenditures/GDP	49.3	47.5	44.7	44.1	46.5	45.1	44.6	43.5	43.0	43.0
Interest/revenues	5.7	5.7	9.6	9.3	8.2	10.0	11.2	9.8	7.8	7.6
Debt/GDP	59.2	61.0	56.7	53.9	54.1	56.3	54.4	53.4	51.6	50.0
Debt/revenues	144.8	152.5	137.0	127.1	126.8	131.8	128.1	125.5	121.4	117.6
Net debt/GDP	43.3	46.8	46.0	44.8	43.6	45.8	44.6	44.0	42.7	41.4
Liquid assets/GDP	15.8	14.2	10.7	9.1	10.4	10.5	9.8	9.3	8.9	8.5
Monetary indicators (%)										
CPI growth	2.9	4.4	8.3	8.7	5.9	4.1	5.7	3.5	2.5	2.5
GDP deflator growth	4.3	6.2	8.8	5.2	5.8	6.8	5.2	3.0	2.0	2.0
Exchange rate, year-end (ISK/$)	127.2	130.4	142.0	136.2	138.2	125.2	121.0	123.4	125.9	128.4
Banks' claims on resident non-gov't sector growth	4.7	(7.4)	11.5	6.6	8.0	7.1	7.0	6.5	5.5	5.5
Banks' claims on resident non-gov't sector/GDP	136.5	113.2	106.6	102.6	105.7	104.9	105.1	106.6	107.5	108.5
Foreign currency share of claims by banks on residents	13.3	14.1	13.7	11.5	12.1	11.5	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)	3.8	7.6	N/A	N/A	N/A	N/A

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

Adjustments: Government fiscal metrics exclude the Icelandic Housing Financing Fund.

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 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.
		Although diversifying, the economy is still concentrated on tourism, fishing, and aluminum.

Iceland--Rating Component Scores

Key rating factors	Score	Explanation
		Metal and fishing sectors each represent about 20% and tourism generally over 33% of the export base. We estimate revenue from tourism at about 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 account 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 currency 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.
Final rating		
Foreign currency	A+	
Notches of uplift	0	Default risks do not apply differently to foreign- and local-currency debt.
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, Aug. 19, 2026
- Sovereign Ratings History, Aug. 19, 2026
- Sovereign Ratings Score Snapshot, Aug. 11, 2026
- Sovereign Risk Indicators, July 14, 2026. Interactive version available at http://www.spratings.com/sri.
- Banking Industry Country Risk Assessment: Iceland, Dec. 19, 2025

Ratings Detail (as of September 04, 2026)*

Iceland	
Sovereign Credit Rating	A+/Positive/A-1
Transfer & Convertibility Assessment	AA-
Senior Unsecured	A+
Senior Unsecured	A-1
Short-Term Debt	A-1
Sovereign Credit Ratings History	
06-Mar-2026	A+/Positive/A-1
10-Nov-2023	A+/Stable/A-1
12-May-2023	A/Positive/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.