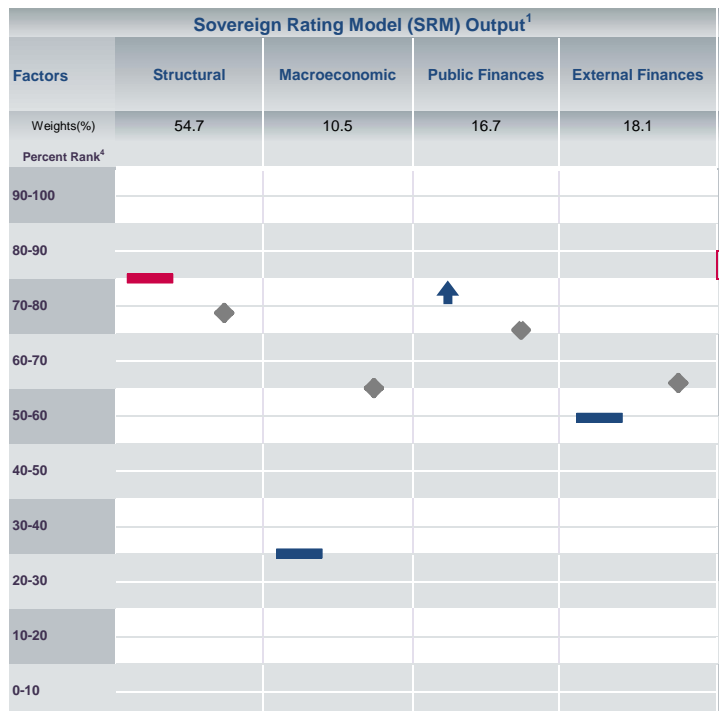


Ratings Navigator			
Publish Date:		12-Dec-18	
Ratings		Outlooks	
Long-Term FC IDR	A	Stable	
Long-Term LC IDR	A	Stable	
Short-Term FC IDR	F1		
Short-Term LC IDR	F1		
Country Ceiling	A		
Rating History			
Date	LT FC IDR	Action	
07-Dec-18	A	Stable	Affirmed
08-Jun-18	A	Stable	Affirmed
08-Dec-17	A	Stable	Upgrade
07-Jul-17	A-	Positive	Upgrade
13-Jan-17	BBB+	Positive	Affirmed
15-Jul-16	BBB+	Stable	Affirmed
15-Jan-16	BBB+	Stable	Affirmed
24-Jul-15	BBB+	Stable	Upgrade
30-Jan-15	BBB	Positive	Affirmed
01-Aug-14	BBB	Stable	Affirmed
07-Feb-14	BBB	Stable	Affirmed
11-Oct-13	BBB	Stable	Affirmed
14-Feb-13	BBB	Stable	Upgrade
17-Feb-12	BBB-	Stable	Upgrade
Bar Chart Legend			
Vertical Bar Height = Percent Rank vs all Sovereigns			
Bar Colors = Relative Influence of Rating Factor in SRM ⁶			
■	Higher Influence (Sovereign Data)		
■	Moderate Influence (Sovereign Data)		
■	Lower Influence (Sovereign Data)		
■	Peer Data (Rating Category Median)		
Bar Arrows = Rating Factor Outlook			
↑	Positive	↓	Negative
↕	Evolving	□	Stable
◆	Peer Median		
Relevant Criteria			
Sovereign Rating Criteria (Jul 2018)			
Country Ceilings Criteria (Jul 2018)			
Analysts			
Eugene Chiam (+44 20 3530 1512)			
Ed Parker (+44 20 3530 1176)			



Qualitative Overlay (QO) ²		-1	A
Factors	Notch Adjustment		Long-Term FC IDR ³
Structural		0	AAA
Political Stability & Capacity			AA+
Financial Sector Risks			AA
Business Environment			AA-
Macroeconomic		0	A+
Policy Credibility & Coherence			A
GDP Growth Outlook			A-
Macro Stability			BBB+
Public Finances		0	BBB
Fiscal Financing Flexibility			BBB-
Public Debt Sustainability ⁵			BB+
Fiscal Structure			BB
External Finances		-1	BB-
External Financing Flexibility			B+
External Debt Sustainability			B
Vulnerability to Shocks			B-
Total QO Adjustment		-1	CCC+/CCC/CCC-
			CC
			C
			RD
			D

¹ See page 2 for full list of SRM indicators and data points.
² Adjustment framework. Maximum total net notching restricted to +3 to or -3, except in certain circumstances.
³ Long-Term Foreign Currency Issuer Default Rating (the "Sovereign rating") is equal to the SRM predicted rating plus the QO adjustment.
⁴ Relative to all rated Sovereigns.
⁵ And contingent liabilities.
⁶ Relative influence is fixed across all sovereigns, and reflects the relative weight of each rating factor in the SRM.

Summary Strengths & Weaknesses (SRM + QO)				
	Structural	Macroeconomic	Public Finances	External Finances
Status	Strength	Neutral	Neutral	Weakness
Trend	Stable	Stable	Positive	Stable

Rating Drivers	
Strong Structurals, Weak Externals	The ratings balance very high income per capita and strong governance, development and business metrics against a high dependence on commodity exports, vulnerability to external shocks, and experience of macro and financial volatility.
Strong Trend GDP Growth	Trend real GDP growth is stronger than the medians with five-year average growth of 4.5%. We forecast 4.5% growth in 2018, driven by private consumption, investments and tourism, slowing to 3.0% in 2019 and 2.6% in 2020 as tourism cools.
Wage Demands May Raise Inflation	Demands by union leaders and discontent at perceived inequality could result in strong wage rises. Inflationary pressures picked up in October 2018, with HICP rising 2.2% yoy, and could rise further on the weak krona and wage demands.
Economy Vulnerable to External Shocks	Dependence on commodity exports is high, and low diversification of the export base makes Iceland vulnerable to terms-of-trade shocks and the ISK sensitive to capital flows. Recent risks led to a sharp fall in the ISK and a rise in bond yields.
FX Reserves Robust Despite ISK Weakness	The current account deficit is forecast to narrow to 2.9% of GDP in 2018, and to 1.9% by 2020 as tourism activity slows. Despite the weakening ISK, FX reserves stayed at a robust 6.7 months of current external payments in October 2018.
Public Finances on Par with 'A' Peers	Fiscal metrics are consistent with 'A' rated peers' with an average budget surplus of 1.2% of GDP in 2018-2020 versus the -0.9% median. General government debt at 36.7% of GDP has fallen rapidly to slightly lower than the median of 40.9%.

Rating Sensitivities	
Positives	
External Resilience	Sustained improvement in the external balance sheet and resilience of the economy to external shocks.
Negatives	
Overheating Economy	Evidence of overheating in the domestic economy, for example through wage-price spirals, inflation overshoots, and adverse effects on fiscal, household and corporate balance sheets.
Growing External Imbalances	Excessive capital outflows leading to external imbalances and pressures on the exchange rate.

Sovereign Rating Model								
Model Framework			Country		Rating Category Data			
Indicator	Data point	Weight	Data	SRM	BBB	A	AA	
			(Notches)	Median	Median	Median		
Structural		54.7	10.12					
Composite governance indicators	Latest, percentile	19.6	92.8	6.9	58.5	76.0	85.0	
GDP per capita	Latest, percentile	13.6	96.4	4.3	48.6	65.2	80.8	
Share in world GDP (%)	Latest	12.8	0.0	-2.0	0.2	0.3	0.4	
Inverse years since Default/Restructuring ⁴	Declining weight	6.5	0.0	0.0	0.0	0.0	0.0	
Broad money (% of GDP)	Latest	2.1	43.4	1.0	59.4	86.2	95.7	
Macroeconomic		10.5	-0.83					
Real GDP volatility (standard deviation)	10-year	5.4	4.1	-1.1	2.9	2.5	2.1	
CPI (%) - yoy change in annual average	3 year centred avg	2.5	0.2	0.0	3.5	2.4	2.3	
Real GDP growth (%)	3 year centred avg	2.7	3.8	0.3	3.6	3.8	2.4	
Public finances		16.7	-1.09					
Gross general govt debt (% of GDP)	3 year centred avg	7.9	37.1	-0.8	36.0	40.9	39.2	
General govt interest (% of Revenue)	3 year centred avg	4.0	7.7	-0.3	7.0	4.8	4.1	
General govt budget balance (% of GDP)	3 year centred avg	3.2	1.3	0.1	-2.4	-2.3	-0.4	
Public foreign-currency debt (% of GGGD)	3 year centred avg	1.5	22.8	-0.1	36.1	13.8	0.8	
External finances		18.1	0.03					
Reserve currency (share in global FX) ⁵	Declining weight	7.5	0.0	0.0	0.0	0.0	0.0	
Sovereign net foreign assets (% of GDP)	3 year centred avg	5.8	16.2	0.2	2.7	11.8	3.4	
Commodity dependence (% of CXR)	Latest	1.7	37.3	-0.2	21.4	10.8	15.6	
Reserves (months of CXP) [for RC = 0 only]	Latest	1.1	6.6	0.2	4.9	3.7	1.5	
External interest service (% of CXR)	3 year centred avg	1.2	3.9	-0.1	4.3	2.4	4.8	
CAB + Net FDI (% of GDP)	3 year centred avg	0.8	3.7	0.0	0.4	2.7	0.5	
Intercept term ¹			3.94					
Total	100		12.19 ²					
SRM predicted rating			A+					
SRM override flag and applied rating ³	No		n.a.					

¹ The intercept term is constant across all sovereigns.

² Total maps to LT FC rating scale as follows: < 0.5 = CCC and Below, 0.5-1.5 = B-, 1.5-2.5 = B, etc up to 14.5-15.5 = AA+ and >15.5 = AAA.

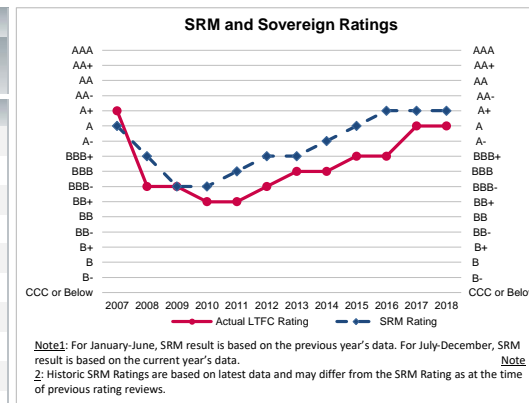
³ Sovereign Rating Committee can override SRM predicted rating if a marginal change in the Total result leads to a notch change which is judged to be temporary.

⁴ A non-linear representation of the number of years since the last default or restructuring event, ranging from zero (if there has been no event after 1980) to one (if there has been an event in the current year, or the sovereign remains in default).

⁵ A non-linear representation, ranging from 0 to 4.6. The full share of Euro holdings is applied for all euro area economies.

Acronyms used: foreign currency (FC), local currency (LC), issuer default rating (IDR), gross domestic product (GDP), consumer price inflation (CPI), current external receipts (CXR), current external payments (CXP), gross general government debt (GGGD), reserve currency (share in global FX) (RC), foreign direct investment (FDI).

Peers	
Long-Term FC IDR	Country
A+	China
	Ireland
	Israel
	Malta
	Saudi Arabia
	Slovakia
A	Iceland
	Chile
	Japan
	Ras Al Khaimah
A-	Latvia
	Lithuania
	Malaysia
	Poland
	Slovenia
	Spain



Forecast Summary Tables					
Indicator	2016	2017	2018f	2019f	2020f
Real GDP growth (%)	7.4	4.0	4.5	3.0	2.6
CPI (%) - yoy change in annual average	0.8	-1.6	0.6	1.5	2.0
Unemployment rate (%)	3.0	2.8	2.8	3.0	3.1
Short-term interest rate (annual avg%)	5.0	4.0	4.0	4.3	4.5
General govt budget balance (% of GDP)	12.3	1.5	1.2	1.2	1.2
Gross general govt debt (% of GDP)	51.7	41.4	36.7	33.2	29.9
Current account balance (% of GDP)	7.5	3.3	2.9	2.5	1.9
Net external debt (% of GDP)	31.5	30.8	22.7	19.8	14.0
Official international reserves (USDbn)	7.2	6.6	6.7	7.1	7.5
Nominal GDP (USDbn)	20.7	24.5	26.8	24.2	25.8
Exchange rate per USD (end-year)	112.82	104.42	123.55	123.55	123.55

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