



The Republic of Iceland's sovereign credit rating

Three agencies assign the Republic of Iceland's a sovereign credit rating: Moody's Investors Service, Fitch Ratings, and S&P Global Ratings.

Credit ratings play an important role in the global financial markets. Ratings agencies assign borrowers a credit rating that makes a significant impact on the lending terms offered to them. The credit rating reflects the borrower's ability to fulfil his obligations fully and punctually and gives a forward-looking indication of the risk that the borrower might default on its obligations. The Republic of Iceland's sovereign credit rating sets a sort of ceiling on the credit ratings of other Icelandic borrowers in the global markets and is important for them.

Government credit ratings are assigned based on various criteria, including the following:

- Foreign-currency liquidity
- Potential output growth
- Monetary policy
- Political risk
- Government finances and government guarantees
- Composition of economy and revenues
- Debt position of State-owned corporations
- Public sector debt position
- Private sector debt position

These criteria are all assessed, whereupon a credit rating is issued. In the financial markets, ratings from credit ratings agencies are placed in two main categories: **investment grade and speculative grade**. The ratings agencies use similar grading systems, as is shown in Table 1. The alphabetic rating is generally accompanied by an outlook statement indicating the prospects for changes in the credit rating. The outlook can be negative, stable, or positive. Credit ratings agencies publish news and detailed analysis for their assessments on a regular basis.

Moody's	S&P og Fitch	Explanation of rating
<i>Investment grade ratings</i>		
Aaa	AAA	Highest grade, lowest risk
Aa	AA	High grade, low risk
A	A	Above average grade, relatively low risk
Baa	BBB	Average grade, medium risk
<i>Speculative grade ratings</i>		
Ba	BB	Payment likely, but uncertain
B	B	Currently able to pay, risk of future default
Caa	CCC	Poor liquidity and clear risk of default
Ca	CC	Very doubtful liquidity; frequent default
C	C	Lowest grade; extremely poor outlook for repayment
	D	In default

The numbers 1, 2 and 3 are sometimes appended to the Moody's ratings ranging from Aa-Caa. 1 indicates that the grade is in the top category within that level, while 2 indicates an average grade and 3 signifies that the grade is in the lowest category within that level. "+" or "-" is sometimes appended to the S&P and Fitch ratings ranging from AA-CCC. "+" indicates that the rating is in the top category within that level, and "-" means that the rating is in the lowest category within that level.

Table 2. Credit Ratings on Short-term Obligations			
Moody's	S&P	Fitch	Explanation of rating
P-1	A-1	F1	Highest grade, lowest risk
P-2	A-2	F2	High grade, low risk
P-3	A-3	F3	Above average grade, acceptable liquidity
	B	B	Payment likely, but uncertain
	C	C	Significant risk of default; dependent on advantageous conditions
	SD og D	D	Lowest grade; extremely poor outlook for repayment, or in default

"+" is sometimes appended to S&P's short-term credit ratings. "+" means that the rating is in the highest category within that level.

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Experts from the ratings agencies visit Iceland usually annually and meet with representatives from the Government and the private sector. Following those meetings, the credit rating is affirmed or amended, if deemed necessary.

Interactions between Iceland and the ratings agencies commenced in 1986, when Standard & Poor's decided to categorise several countries that had no formal credit rating at the time, thereby giving an indication of their overall credit rating. Iceland was placed in the second-highest category. Countries placed in this category were considered to be well capable of paying long-term sovereign foreign currency debt.

In 1988 S&P announced that it intended to discontinue this category, re-evaluate the countries therein, and assign to them a conventional alphabetical credit rating. For those countries for which the company issued credit ratings on its own initiative and not that of the country itself, the grade was further identified with the letter "i". Around mid-March 1989 the company announced that it had given the Republic of Iceland a long-term sovereign rating of "Ai" and a short-term rating of "A-1". Moody's followed suit in 1989 and gave the Republic an unsolicited rating of A2; however, unlike S&P, it did not append any symbol indicating that the rating was unsolicited.

The Republic's formal credit rating history began when the Icelandic Government requested, first from S&P in 1989 and then from Moody's in 1990, short-term ratings for the Treasury bills that were issued in London. S&P issued a grade of A-1, and Moody's gave a rating of P-1.

In connection with the government's preparation for its first public bond issue in the US market in 1994, Moody's and S&P were formally asked to give the country a long-term credit rating. In January 1994, S&P gave a rating of A for long-term obligations, and later in the month Moody's announced a rating of A2. Thus both ratings agencies affirmed the previous informal sovereign ratings.

Table 3. Sovereign Credit Ratings

	Foreign Currency	Domestic Currency	
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	Affirmed	Long-term	Short-term	Long-term	Short-term	Outlook
Moody's	Aug. '21	A-2	...	A-2	...	Stable
S&P	May '21	A	A-1	A	A-1	Stable
Fitch	Mar '21	A	F1+	A	F1+	Negative

Table 4. Developments in Standard & Poor's Sovereign Credit Ratings of IcelandChange from previous year in **bold**

Standard & Poor's Affirmed(date)	Foreign Currency		Domestic Currency		Outlook
	Long-term	Short-term	Long-term	Short-term	
'89	Ai	A-1	...	...	Stable
'94	A (new)	A-1	...	...	Stable
'96	A+	A-1+	AA+ (new)	...	Stable
Sept. '98	A+	A-1+	AA+	...	Positive
March '01	A+	A-1+	AA+	...	Stable
Oct. '01	A+	A-1+	AA+	...	Negative
Nov. '02	A+	A-1+	AA+	A-1+ (new)	Stable
Dec. '03	A+	A-1+	AA+	A-1+	Positive
Feb. '05	AA-	A-1+	AA+	A-1+	Stable
June '06	AA-	A-1+	AA+	A-1+	Negative
Dec. '06	A+	A-1	AA	A-1+	Stable
Nov. '07	A+	A-1	AA	A-1+	Negative
Apr. '08	A+	A-1	AA	A-1+	CreditWatch
Apr. '08	A	A-1	AA-	A-1+	Negative
Sept. '08	A-	A-2	A+	A-1	CreditWatch
Oct. '08	BBB	A-3	BBB+	A-2	Negative
Nov. '08	BBB-	A-3	BBB+	A-2	Negative
Dec. '09	BBB-	A-3	BBB+	A-2	Stable
Jan. '10	BBB-	A-3	BBB+	A-2	CreditWatch
March '10	BBB-	A-3	BBB	A-3	Negative
May '11	BBB-	A-3	BBB-	A-3	Negative
Nov. '11	BBB-	A-3	BBB-	A-3	Stable
Oct. '12	BBB-	A-3	BBB-	A-3	Stable

Table 4. Developments in Standard & Poor's Sovereign Credit Ratings of Iceland

Jul. '13	BBB-	A-3	BBB-	A-3	Negative
Jan. '14	BBB-	A-3	BBB-	A-3	Stable
Jul. '14	BBB-	A-3	BBB-	A-3	Positive
Jul. '15	BBB	A-2	BBB	A-2	Stable
Jan.'16	BBB+	A-2	BBB+	A-2	Stable
Jan '17	A-	A-2	A-	A-2	Stable
March '17	A	A-1	A	A-1	Stable
May '20	A	A-1	A	A-1	Stable
Nov '20	A	A-1	A	A-1	Stable
May ' 21	A	A-1	A	A-1	Stable

Table 5. Developments in Moody's Sovereign Credit Ratings of IcelandChange from previous year in **bold**

Moody's	Foreign Currency		Domestic Currency		Outlook
	Long-term	Short-term	Long-term	Short-term	
Affirmed (date)	Long-term	Short-term	Long-term	Short-term	Outlook
May '89	A2	...	...	...	...
Oct. '90	A2	P-1 (new)	...	...	...
June '96	A1	P-1	...	...	...
March '97	A1	P-1	...	...	Positive
July '97	Aa3	P-1	Aaa (ný)	P-1 (ný)	Stable
Oct. '02	Aaa	P-1	Aaa	P-1	Stable
March '08	Aaa	P-1	Aaa	P-1	Negative
May '08	Aa1	P-1	Aa1	P-1	Stable
Sept. '08	Aa1	P-1	Aa1	P-1	Under Review
Oct. '08	A1	P-1	A1	P-1	Under Review
Dec. '08	Baa1	P-2	Baa1	P-2	Negative
Nov. '09	Baa3	P-3	Baa3	P-3	Stable
Apr. '10	Baa3	P-3	Baa3	P-3	Negative
Apr. '10	Baa3	P-3	Baa3	P-3	Stable
July '10	Baa3	P-3	Baa3	P-3	Negative
April. '11	Baa3	P-3	Baa3	P-3	Negative
Nov. '12	Baa3	P-3	Baa3	P-3	Negative

Table 5. Developments in Moody's Sovereign Credit Ratings of Iceland

Feb. '13	Baa3	P-3	Baa3	P-3	Stable
Jun. '15	Baa2	P-2	Baa2	P-2	Stable
Sept. '16	A-3	...	A-3	...	Stable
Jul. '18	A-3	...	A-3	...	Positive
Nov. '19	A-2	...	A-2	...	Stable
Apr. '20	A-2	...	A-2	...	Stable
Oct. '20	A-2	...	A-2	...	Stable
Feb. '21	A-2	...	A-2	...	Stable
Aug. '21	A-2	...	A-2	...	Stable

Table 6. Developments in Fitch Ratings' Sovereign Credit Ratings of IcelandChange from previous year in **bold**

Fitch	Foreign Currency		Domestic Currency		Outlook
	Long-term	Short-term	Long-term	Short-term	
Affirmed (date)	Long-term	Short-term	Long-term	Short-term	Outlook
Feb. '00	AA-	F1+	AAA	...	...
Sept. '00	AA-	F1+	AAA	...	Stable
Feb. '02	AA-	F1+	AAA	...	Negative
March '03	AA-	F1+	AAA	...	Stable
Feb. '06	AA-	F1+	AAA	...	Negative
March '07	A+	F1	AA+	...	Stable
Apr. '08	A+	F1	AA+	...	Negative
Sept. '08	A-	F2	AA	...	Ratings Watch
Oct. '08	BBB-	F3	A-	...	Ratings Watch
Dec. '09	BBB-	F3	A-	...	Negative
Jan. '10	BB+	B	BBB+	...	Negative
May '11	BB+	B	BBB+	...	Stable
Feb. '12	BBB-	F3	BBB+	...	Stable
Feb. '13	BBB	F3	BBB+	...	Stable
Jan. '15	BBB	F3	BBB+	...	Positive
Jul. '15	BBB+	F2	A-	...	Stable
Jul. '16	BBB+	F2	BBB+	F2	Stable
Jan. '17	BBB+	F2	BBB+	F2	Positive

Table 6. Developments in Fitch Ratings' Sovereign Credit Ratings of Iceland

Jul. '17	A-	F2	A-	F1	Positive
Dec. '17	A	F1	A	F1	Stable
May. '19	A	F1+	A	F1+	Stable
May. '20	A	F1+	A	F1+	Negative
Oct. '20	A	F1+	A	F1+	Negative
Mar. '21	A	F1+	A	F1+	Negative
Sept. '21	A	F1+	A	F1+	Negative

In 1996 and 1997 Moody's and S&P upgraded the Republic of Iceland's sovereign credit rating. In 1996 S&P announced that it had upgraded its rating for long-term foreign-currency debt from A to A+, and for short-term debt from A-1 to A-1+. Moreover, for the first time S&P issued a rating for long-term obligations in domestic currency: AA+. In June, that same year, Moody's upgraded its credit rating for long-term foreign currency obligations from A2 to A1. In March 1997 Moody's affirmed a positive outlook and four months later, in July, Moody's issued a Aaa rating for the Republic's long-term debt in domestic currency. Subsequently, the outlook was changed to stable. In February 2000 Fitch Ratings joined the group and awarded the Republic of Iceland a rating of AA- for foreign-currency obligations and F1+ for short-term obligations. For long-term debt in domestic currency, Fitch gave the Republic a rating of AAA.

An important milestone in improved sovereign credit ratings was achieved in October 2002, when Moody's upgraded its rating for long-term debt in foreign currency to Aaa, the highest possible rating Moody's assigns. This upgrade was, in part, a result of a change in the company's methodology, which entailed assigning equal footing to the ability to pay in foreign currency and in domestic currency. Shortly thereafter, S&P affirmed the Republic of Iceland's sovereign rating of A+, and it upgraded its outlook from negative to stable in November 2002. The Republic of Iceland held Moody's highest rating of Aaa until May 2008, when the credit rating was downgraded to Aa1. The highest rating that S&P has assigned to the Republic thus far is AA- for long-term foreign-currency debt, a grade which S&P affirmed in February 2005. In December 2006 the rating was downgraded to A+.

The Republic of Iceland's credit ratings were downgraded considerably after the banking crisis of October 2008. In January 2010, Fitch Ratings downgraded Iceland's long-term foreign currency IDR and country ceiling rating to BB+ and thus dropped Iceland into the speculative-grade category. They argued that there was a great deal of uncertainty

following the referendum on the 'Icesave' agreement. In the past few years, Iceland's credit rating has gradually improved and in February 2012, Iceland's long-term IDR and country ceiling rating were again improved to investment-grade by Fitch Ratings.

More detailed articles on sovereign credit rating matters can be found in the articles listed below:

Monetary Bulletin, August 2001: Ólafur Ísleifsson. Iceland's international credit ratings

Financial Bulletin 1995: Ólafur Ísleifsson. Lánstraust á alþjóðlegum markaði

(International credit ratings).

Financial Bulletin 1993: Ólafur Ísleifsson. Lánshæfi og lánstraust (Credit ratings and creditworthiness).

Other links

<http://www.fitchratings.com/>

<http://www.moody.com/>

<http://www.standardandpoors.com>