

Macro Team

10Y Icelandic Bond Pitch

6 November 2025

Spring 2024





AGENDA

First Glance

Macro Data

Politics and Debt

Fiscal Policy

Monetary Policy

Currency Risks

Thesis and Recommendation

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Elevator Pitch

Why is Iceland attractive?

We are pitching a 10-Year Local Icelandic Bond since...



Declining Debt ratio

Currently at 61.8% of GDP, we have strong evidence to assume the ratio will continue on a downward path



Fiscal Responsibility

New governing coalition in line with fiscal targets already outlined in the current Fiscal Plan



High bond yield

Iceland's 10Y treasury bond has the best credit rating comparing to others with similar yields



Soft landing

GDP's growth rate below trend and inflation consistently falling for two years suggest a soft landing

First Glance

ISIN: IS0000035574

1ISK= 0.0076USD (31 March 2024)

ICEGB 7
09/17/35
Ticker

\$100.41
Face Value (\$ISK)

Sep. 2035
Maturity

\$102.35
Price (\$ISK)

A+
Credit Rating (S&P)

+261 b.p
Spread vs T-Note

6.74%
Yield (4 April 2025)

7%
Coupon Rate (Annual)

ISK
Currency



Recommendation:
BUY

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General Overview

Iceland is a small country although with some interesting characteristics.

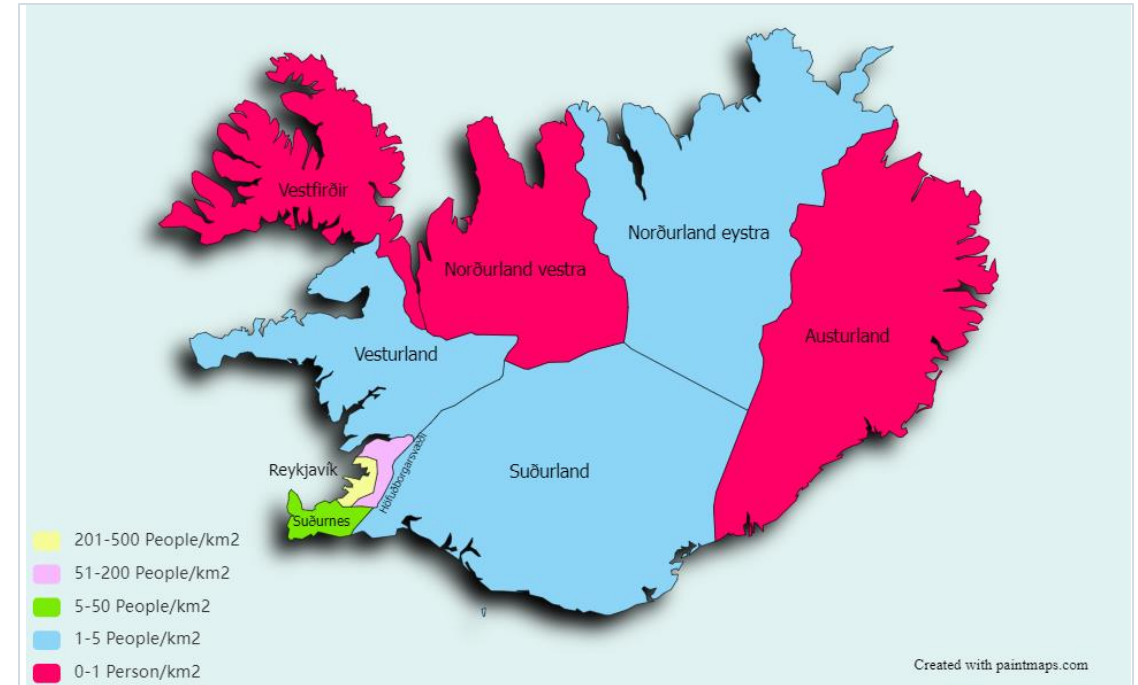
Location and demographics

- Located in the **North Atlantic Ocean**.
- Population **2024**: 393.396 inhabitants.
- Its nearest neighbour to the west is Greenland, at 278 km distance and the Faeroe Islands lie 420 km to the southeast.
- **Global leader** in renewable energy, mainly geothermal and hydroelectric power. About **85%** of the total primary energy supply in Iceland is derived from **domestically production**. This is the **highest share** of renewable energy in any national total energy budget.

Sources: Statistics Iceland

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Population density in Iceland

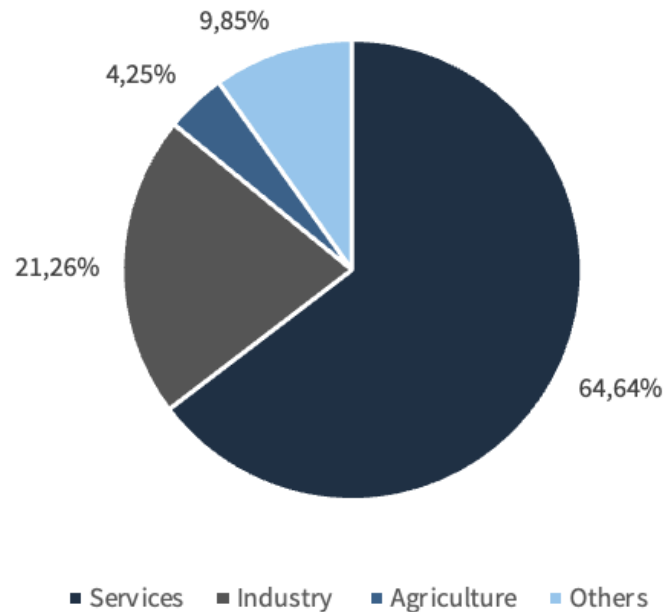


2024 - around **64%** of the country's inhabitants lived in the **Greater Reykjavík Area**. Highly centralized country being this area an **economic and commercial hub**.

General Overview

Iceland is forecasted to return to a stable growth after some fluctuations in recent years.

GDP distribution across sectors, 2023



Services is the sector contributing most to Iceland GDP. GDP **real growth** rate is expected to remain in the next few years rounding **2/3%**.

Key drivers



Natural Resources



Tourism



Fishing/Fish processing



Financial Services

General Overview

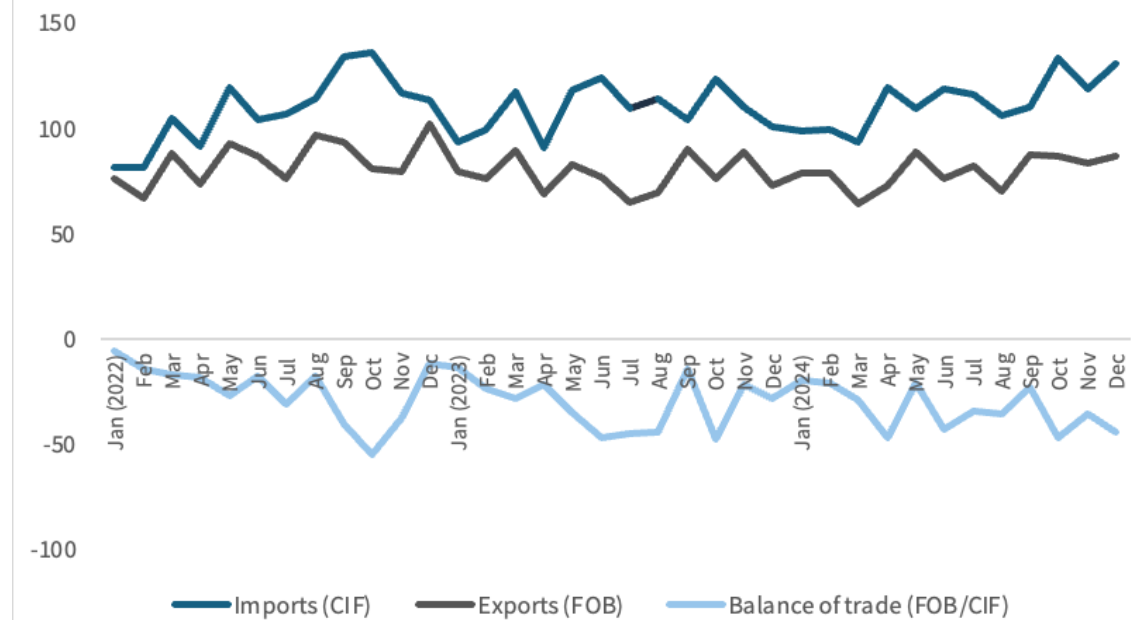
Iceland will continue to run a trade deficit.

Trade

- Iceland normally runs a **deficit Trade Balance**. In February 2025, the deficit was estimated at 57.9 billion ISK – a record since 1960.
- Top 5 **exports**: **Netherlands** (~38%), **United Kingdom** (~9%), **United States** (~8%), **Germany** (~7%) and **France** (~6%).
- Top 5 **imports**: **Norway** (~12%), **China** (~9%), **Germany** (~8%), **Netherlands** (~7%) and **United States** (~6%).

The **increasing trade deficit** comes from a **drop in exports** due to lower sales of **marine products** (-8%), **agricultural goods** (-25%), and other products (-57%). Meanwhile, **imports jumped**, driven by a sharp rise in purchases of **capital goods**.

Exports, Imports and balance of trade 2022-2024 (ISK billion)



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Political Landscape

2024 brought an end to the ruling coalition since 2017 due to escalating disagreements

**Parliamentary
Democratic Republic**



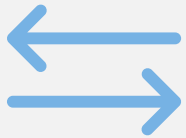
The president is the head of state

**Iceland is considered
a full democracy**



National election's turnout is above 75%

**Major political shifts
happened in 2024**



After snap elections in November

**Governed by a
coalition of 3 parties**



Led by the centre-left party - SDA

Main promises of the recently formed government:

**EU
affiliation
referendum**

**Nordic
welfare
model**

**Lower
interest
rates**



International Relations

Likely application to the EU shows how the country positions itself in the international setting

Relations with European countries

Close economic ties through:

- **European Economic Area (EA)** – participation in the single market
- **Schengen Area** – Icelanders face no internal border checks when travelling in the area
- **European Free Trade Association (EFTA)** – Elimination of trade barriers between members

Why is not Iceland already in the EU?

- Likely adverse effect on the fishing industry
- Close ties to countries with eurosceptic ideals

Relations with the United States

Strong strategic relationship:

- The Keflavík Air Base is vital for monitoring Russian activity in the North Atlantic
- Cooperation particularly significant in **defense and security** through NATO



International Relations

Current trade war presents an opportunity to strengthen trade with Asian countries

Others

Nordic and Arctic Cooperation

- Besides collaboration through the **Nordic and Arctic councils**, countries such as Norway and Denmark are some of the most relevant trading partners

China and Asia-Pacific Relations

- Iceland was the first European Country to sign a **free trade agreement with China** back in 2013
- Special focus on **fish and aluminium trade** and diplomatic neutrality

Tense Relations with Russia

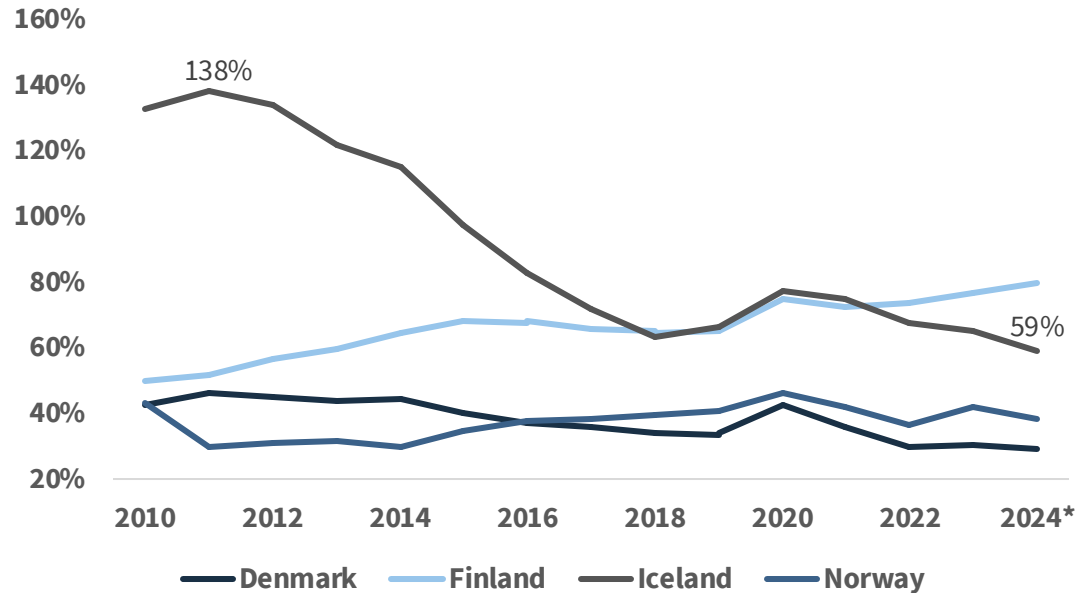
- Iceland has **aligned with Western sanctions**, but both countries maintain diplomatic relations
- **Fishing cooperation**, cultural interaction and a **clean energy partnership** are the key areas in which these two countries work together



Debt Overview

Despite some political turmoil, fiscal sustainability is not at stake

Government Debt as a % of GDP



- S&P's credit rating for Iceland went from **BBB- in 2010 to A+ in 2025**
- Economic growth, fiscal discipline and letting banks fail led to a **74% reduction in debt/GDP**

Projections

▶ Debt ratio will be on a downward path:

Primary
fiscal
surpluses

Cash
deposits

Planned
sale of a
bank

Debt to GDP ratio expected to fall to ~56% by 2027



- **2025's budget will be updated**, but it will be in line with the current Fiscal Plan (2025-2029)

Rating Sensitivities

Recent S&P rating action leaves Iceland's credit rate unchanged and points to a stable outlook

Factors that can lead to a **rating upgrade**

Sustained decline in the debt to GDP ratio

Evidence of economic diversification

Growth prospects

Factors that can lead to a **rating downgrade**

Global trade war

High exchange rate volatility

Correction in the real estate market

- Despite having a relatively high income per capita, governance indicators similar to higher rated sovereigns and strong fundamentals, **Iceland's credit score is constrained by its small economy size**, limited export diversification and exposure to external and natural shocks

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Fiscal Policy

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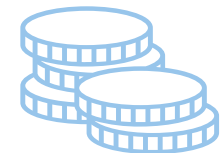


Fiscal Policy

Iceland's government continues to demonstrate fiscal prudence while maintaining a stable economic outlook

Iceland's Fiscal Strategy

- **2025 government deficit approved at 1.8% of GDP**, reflecting credible fiscal consolidation
- **Treasury primary surplus** of 0.4% of GDP
- Public sector **expenditure to reach 45.7% of GDP**, with revenues at **44.0% of GDP**
- **Interest payments stable** at 2.6% of GDP
- Government targets a **balanced budget by 2029**
- Public debt forecast to fall from **61.8% (2024)** to **60.2% (2025)**



Iceland's 2025 Budget Allocation

Consolidation Through Strategic Protection and Cuts

Winners

Environmental Priorities:
Continued public support
for renewable energy

**Housing &
Welfare:** expected to
prioritize expanded
housing access



**Data Center
Support:** government
accommodation of tech
sector expansion

**Innovation and
knowledge**

Losers

**Temporary tax hikes on
carbon, fuel, alcohol, and
corporate income**

**ISK 28 billion in
expenditure cuts**



**Healthcare and
schools under growing
strain from labor inflows**

**“Capital outlays
restrained: Public
investment cuts of 2.8%
in 2024 and 0.6% in
2025”**

Future Outlook

Iceland's fiscal path is credible, but vulnerable to shocks and implementation risk

Positive (Opportunities)

Positive Credit Trajectory

Debt Relief Initiatives: HF Fund resolution and bank privatization

Scope for Reform: Iceland ranks 34th in the OECD Tax Competitiveness Index

Energy diversification policies, new investment and tax revenues, easing reliance on tourism

Risks and Challenges

Competitiveness – related to tax rates

Growth risk: 1.6% in 2025

Execution risks and spending composition

Inflation still elevated

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Monetary Policy

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Overview

Independent institution accountable to the Prime Minister and administered by the Ministry of Finance and Economic Affairs.

Central Bank of Iceland



Primary Objective: To promote price stability.

Inflation Target: 2.5%

- Holds 8 meetings throughout the year.

As of 19th March 2025, the interest rates are as follows:

- Overnight loans 9.50%
- Seven-day collateralised loans 8.50%
- **Seven-day term deposits 7.75%** (down 25bps)

Monetary Policy Committee

A five-member body responsible for making decisions on monetary policy instruments like interest rates, minimum reserve requirements, and market operations to maintain price stability.

Governing Body



Ásgeir Jónsson
Governor

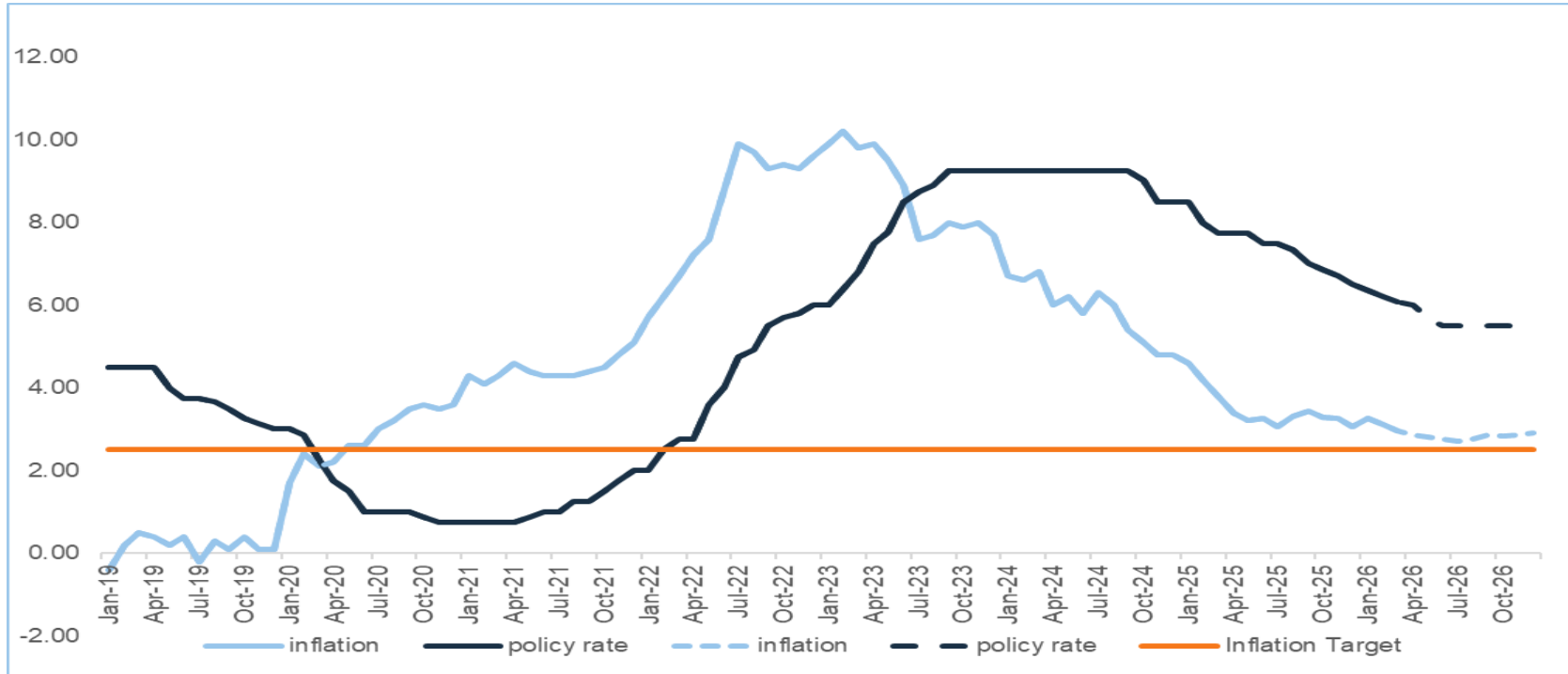


Thórarinn G. Pétursson
Deputy Governor of
Monetary Policy

Inflation Expectations

CBI started monetary easing in the final quarter of 2024.

Inflation and Policy Rate Dynamics

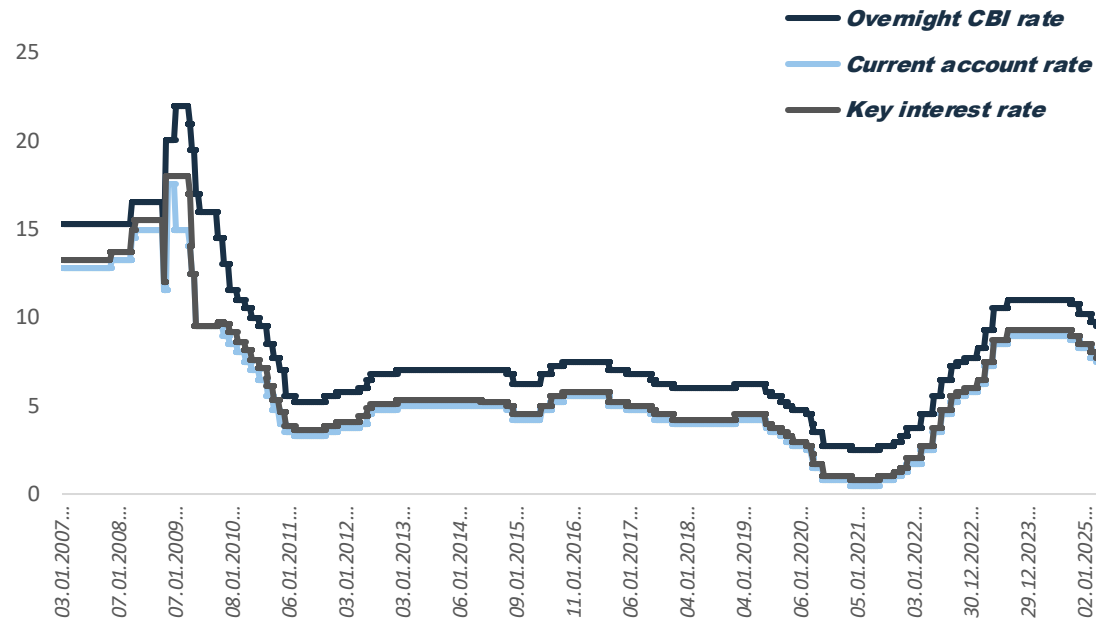


Policy rate has been moving in accordance with inflation and inflation expectations. Inflation is expected to reach an average of **3.5% in 2025** and **3% by mid 2026**. Inflation is expected to keep falling but to be slightly higher in coming quarters due to tariffs. So, we expect CBI to hold rate cuts in May to factor the changes in the economy.

Future Monetary Stance

In alignment with inflation outlook, we expect policy rates to go down to 6.5% by the end of 2025 and 5- 5.5% in 2026.

Historical Interest Rates

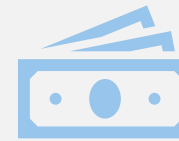


CBI will presumably continue easing for coming quarters. However, they do not want to move too fast & will keep **monetary policy relatively tight and high in the future.**

Drivers Behind the Policy Stance

Focused to promote a balanced economy

Steady Increase in wages



Unemployment rate



Falling Housing Prices



Decline in Services Inflation



Paints a picture of a relatively soft landing

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Currency Risks

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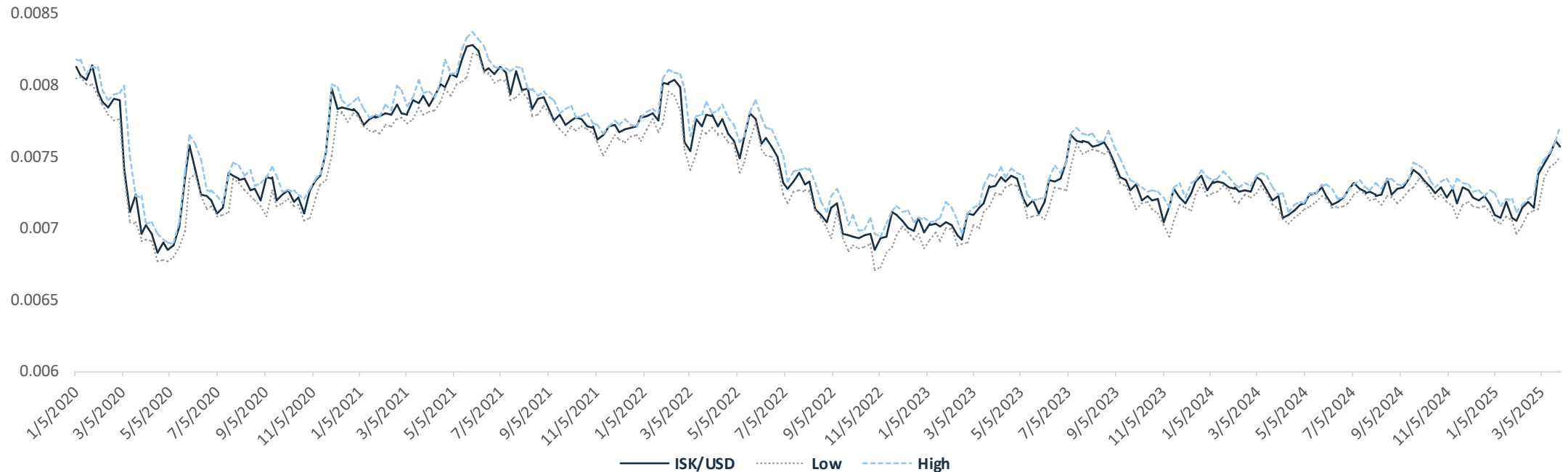
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Historical Analysis

Relatively prone to volatility due to Iceland's small, open and trade reliant economy.

ISK/USD Exchange Rate



The Icelandic króna (ISK) is the official currency of Iceland. It's a non-major currency, meaning it's not as liquid or widely traded as the euro, dollar, or pound, and this can contribute to its sharp swings during global economic shifts. The ISK experienced **significant depreciation during the COVID-19** pandemic as Iceland's tourism sector, a key driver of foreign currency inflows collapsed. **Mid 2021-22, ISK gradually strengthened** as CBI began rising interest rates and global travel recovered. However, Krona saw renewed **depreciation pressures in 2023-24** due to high inflation in Iceland (peaking around 10%), record current deficit and slowing tourism growth.

Factors Influencing Exchange Rate

Iceland's exchange rate is sensitive to a combination of domestic economic conditions and global market forces.

Strengthening Factors

- **Inflation** : Slowing Inflation is expected to bolster the real value of the ISK and enhance consumer purchasing power.
- **Stronger Tourism**: Tourism is projected to grow by **1.6% in 2025, 3.5% in 2026 & 3.4% in 2027**. A growing tourism sector increases demand for the ISK, leading to appreciation.
- **Tariffs** : Iceland's **competitive advantage over Norway**, whose exports to the U.S. are now subject to 15% tariffs, 5% higher than Iceland's. Smaller price increase relative to competitors could help Iceland maintain or even grow market share, especially for niche products with few substitutes.

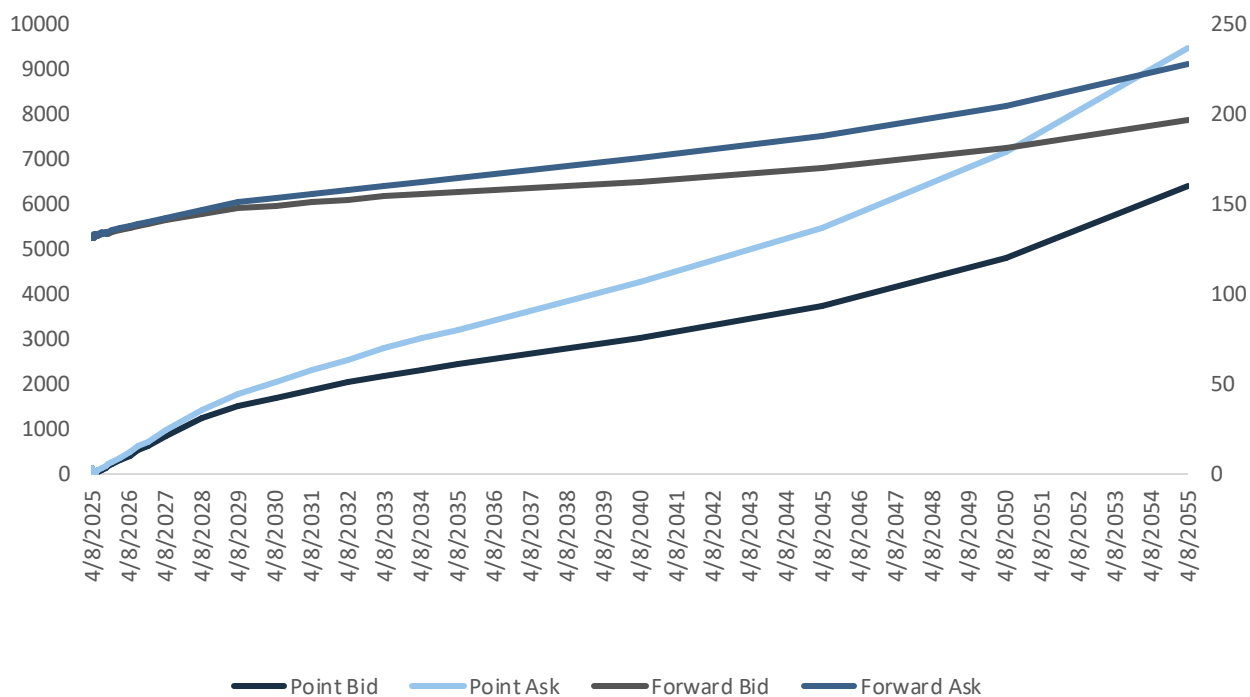
Weakening Factors

- **Tariffs**: 10% tariffs on all exports to US mainly software and pharmaceuticals where global competition is already intense is concerning.
- **Negative Current Account**: Implies a downward pressure on Krona, leading to its depreciation.
- **Seasonal Tourism**: Iceland's FX is sensitive to seasonal tourism patterns.
- **Funds Outflow**: Pension funds' foreign investment and other investment-related outflows could pull in the exchange rate opposite direction.

FX Forwards

Presents a good opportunity for us to hedge a well poised risk.

30 Year Forward Curve



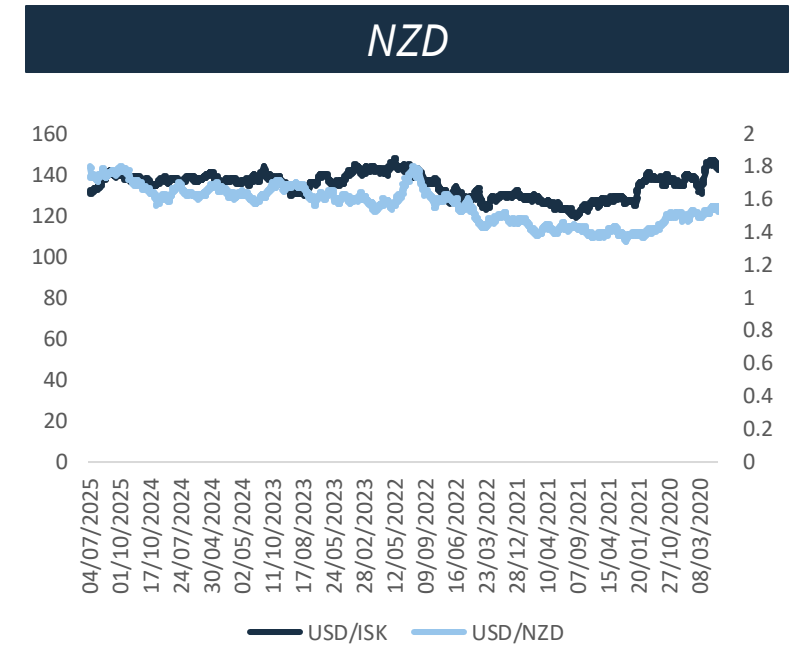
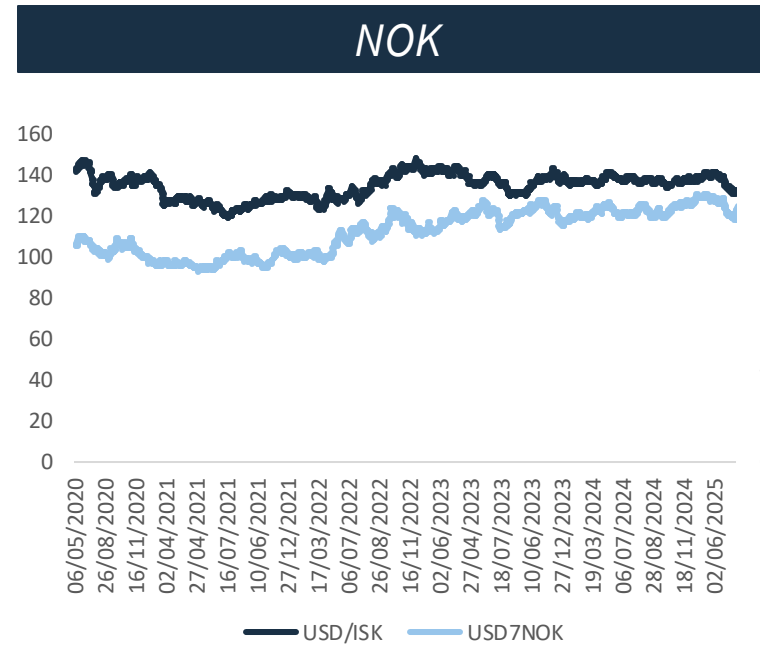
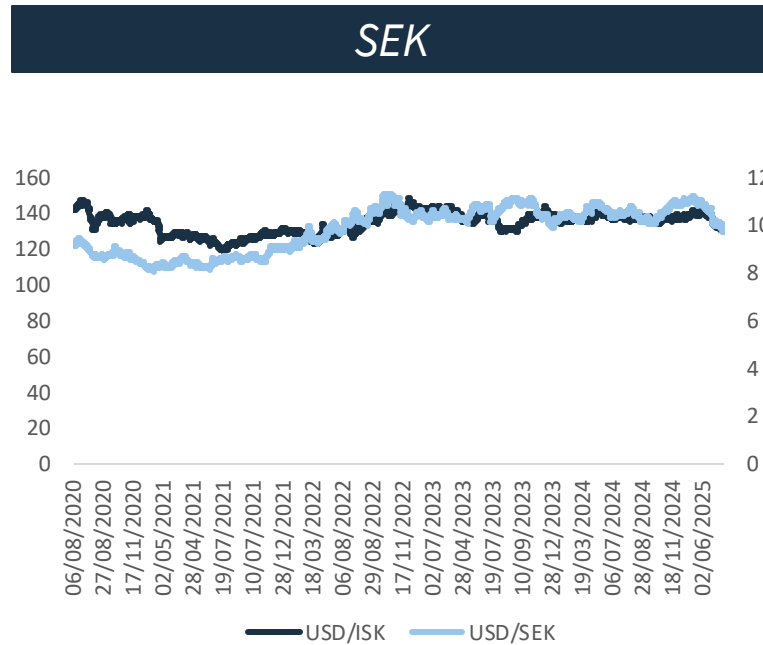
As of today, the 3-year forward USD/ISK rate is **148.315** implying a modest depreciation of ISK from **132.89 spot**, roughly **3.46%** annualized which can be priced in within the bond's coupon rate i.e **7%**.

Date	Q2 2025	Q3 2025	Q4 2025	Q12026
Forward	131	130	129	129

The financial system in Iceland is **resilient** with systemically important banks maintaining **strong capital and liquidity positions**. CBI is set on a path of **monetary easing**, and we expect a narrowing of the existing interest rate differential.

Peer Analysis

ISK performance in the exchange rate in comparison to its peer has been fairly good and stable.



- Both small economies with reliance on international trade.
- ISK more resilient in 2024 than SEK.**

- Both economies rely heavily on exports and global trade and are sensitive to global commodity prices.
- Both face external-driven **FX pressures but adapt well.**

- Most comparable economy with Iceland.
- Both currencies show **moderate volatility** and resilience since post covid recovery.

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Thesis and Recommendation

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Investment Thesis

Bond expected to thrive with the catalysts

Catalysts

- Increasing and positive **credit ratings**
- Stable political situation
- Positive **economic growth** outlook
- Decreasing levels of government debt, decreasing risk of credit default and positively affecting **monetary policy**
- Interest rates **peaked** very recently

Risks

- Uncertainty regarding **inflation** outlook due to trade war with the U.S.
- Iceland is prone to **negative geographic factors** such as volcanic and seismic activity

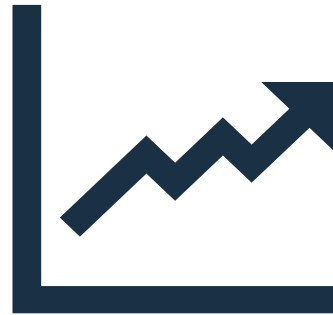
Portfolio Fit

Increased bond exposure is needed in the portfolio



Lower Currency Risks

The Krona shows **much more stable figures** than other currencies, stabilizing bond performance during uncertain times



Safety and Stability

Decreasing debt, economic growth, positive monetary policy outlook, and a **stable** political situation are all very positive in bond performance



Decent Relative Performance

In comparison to other bonds with similar yields, Iceland has the **highest credit ratings** and **attractive catalysts**

Inflation and YTM Sensitivity Analysis

The Trade Is Clear. The Timeline Depends on Inflation.

Scenario Returns Depend Not on Direction, But on Inflation's Decay Curve

Price forecasting for May of 2026						
Δ YTM	Δ Price	Profit per Unit	Modified Duration	Δ Price (%) for a Δ YTM [-0.5%,-2%]	Additional Δ Price	
0%	ISK 106.30	0.61	6.49	[+3.2%;+12.98%]	[109.7 ISK ; 120.1 ISK]	
-0.5%	ISK 109.80	4.11	6.57	[+3.2% ;+9.8%]	[113.4 ISK ; 120.6 ISK]	
-1%	ISK 113.50	7.81	6.64	[+3.3%;+6.6 %]	[117.27 ISK ; 121 ISK]	
-1.50%	ISK 117.40	11.71	6.72	3.30%	121.34 ISK	
-2%	ISK 121.40	15.71	6.80			

In our **base case**, a **1% drop in yields by May 2026** strikes a **balance between deflationary pressures and macroeconomic uncertainty**, raising the bond price to **ISK 113.5** and delivering a **ISK 7.81 profit per bond**. The additional price appreciation is **conservative**, as it's based on **modified duration**, which **understates price gains** from falling yields due to **convexity**.

Recommendation: Buy

ICEGB 7 09/17/35



Investment Horizon:
2 Years

Take Profit:
\$ISK 121.34

Stop Loss:
\$ISK 98.87

Proposed Allocation:
3%



BUY

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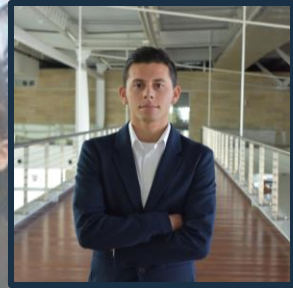


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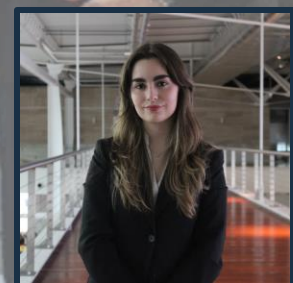


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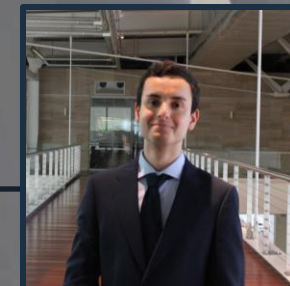


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