

Flash Comment

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Iceland: Fitch downgrades Iceland

The rating agency Fitch has cut Iceland's foreign-currency debt rating to "A+" from "AA-." The country's local-currency rating was downgraded to "AA+" from "AAA." All ratings have a stable outlook.

This is obvious bad news for the Icelandic economy and markets and could spark a renewed selling in the Icelandic markets. The downgrade has to be seen in the light of the continued worsening of Iceland's external position.

It is worth noticing that it was Fitch's change of outlook from stable to negative that last year basically sparked the unavoidable sell-off in the Icelandic markets. Given the present environment with increasing global risk aversion today's negative rating news from Fitch is likely to re-accelerate the sell-off in the Icelandic markets.

We continue to maintain the view that the large imbalances in the Icelandic economy are unsustainable and that the economy is likely to be heading for a hard landing and the prospects for the Icelandic markets remain bleak. Furthermore, Fitch's downgrade will make it even more difficult for the Icelandic central bank to cut rates.

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