

CREDIT OPINION

29 September 2025

Update



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RATINGS

Faroe Islands, Government of

Domicile	Denmark
Long Term Rating	Aa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Government of Faroe Islands (Denmark)

Update to credit analysis

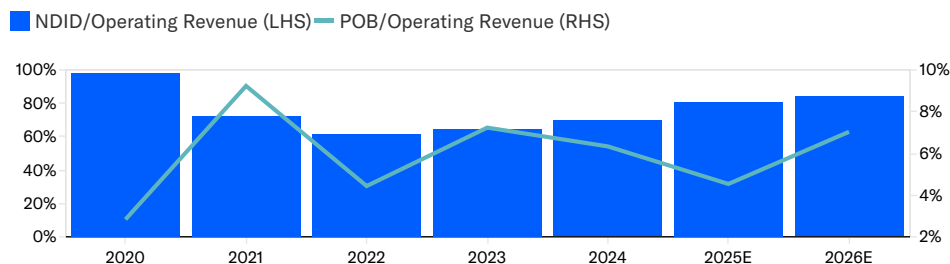
Summary

The [Faroe Islands'](#) credit profile (Aa2 stable) is supported by its strong fiscal autonomy, prudent financial management and robust liquidity, enabling effective responses to shocks. Reliable institutions further reinforce stability. However, economic constraints include a narrow, less diversified economy, high investment needs and population growth. We also take into account a strong likelihood that the [Government of Denmark](#) (Aaa stable) will provide support if the Faroe Islands were to face acute liquidity stress.

Exhibit 1

Faroe Islands' financial performance will remain sound in 2025-2026E

Net Direct and Indirect Debt (NDID)/Operating Revenue (% LHS) and Primary Operating Balance (POB)/Operating Revenue (% RHS), 2020-2026F



Source: Landsbankin Foroya (Faroe Islands Governmental Bank) and Moody's Ratings

Credit strengths

- » Strong institutional framework with long-established fiscal autonomy
- » Continuous strong operating performance and liquidity buffers
- » Moderate debt levels

Credit challenges

- » Narrow economy, which relies on fishing and fish farming
- » Growing population with high investment needs

Rating outlook

The stable outlook reflects the Faroe Islands' economic policies, which will continue to support macroeconomic stability. Together with the ongoing strength of institutions and effective policymaking, this will lead to strong financial health. The stable outlook also reflects the continuity of its robust liquidity.

Factors that could lead to an upgrade

The Faroese government's rating could be upgraded if it diversifies its economy and achieves significant financing surpluses. Ongoing sound financial results, increased liquidity buffers to manage economic shocks and reduced debt ratios may also result in a positive rating adjustment.

Factors that could lead to a downgrade

Downward pressure on the rating could emerge if the debt burden rises significantly above the current levels, along with sustained financial deficits. A weakening in the relationship with Denmark could also have negative rating implications. Given the high reliance of revenue from fishing and fish farming, any unexpected adverse shock affecting the Faroese fishing industry could also lead to a rating downgrade.

Key indicators

Exhibit 2

Government of Faroe Islands

	2020	2021	2022	2023	2024	2025E	2026E
Primary operating balance as a % of operating revenues	2.8	9.2	4.4	7.2	6.3	4.5	7.0
Cash financing surplus (deficit) as a % total revenues	-3.5	3.4	-1.8	-1.8	-1.1	-1.2	0.5
Net direct and indirect debt as a % operating revenues	97.7	72.0	61.2	64.2	69.3	80.3	83.5
Interest payments as a % of operating revenues	0.6	0.5	0.5	1.7	1.7	1.4	1.7
Capital expenditure as a % of total expenses	8.1	6.0	6.1	7.5	6.0	4.7	5.1
Cash and cash equivalents as a % of operating revenues	59.4	43.9	39.6	42.4	49.0	42.6	44.8

E: Moody's estimates.

Sources: Landsbankin Foroya (Faroe Islands Governmental Bank) and Moody's Ratings

Profile

The Faroe Islands consist of 18 islands located in the Atlantic Ocean, between Scotland and Iceland, with a growing population of around 55,000 inhabitants. While part of the Kingdom of Denmark, the Faroe Islands are governed by the Home Rule Act, which gives the Faroese government full power and flexibility to set its tax rates and fees.

The islands' 29 municipalities vary widely in terms of size, from fewer than 50 inhabitants to around 24,000. Municipalities vary also widely in terms of financial strength, with stronger ones including Tórshavn and Klaksvík.

Detailed credit considerations

The credit profile of the Faroe Islands, as expressed in an Aa2 stable rating, combines a Baseline Credit Assessment (BCA) of aa3 and a strong likelihood of extraordinary support from the Government of Denmark in the event the entity faces acute liquidity stress.

Baseline Credit Assessment

Strong institutional framework with long-established fiscal autonomy

The Faroe Islands' credit profile is underpinned by the strong institutions and a history of macroeconomic policy consensus contributing to stable and high growth, high income levels and economic resilience despite the economy's small size.

The Faroese government has full power and flexibility to set its tax rates and fees, which supports the government's financial flexibility; more than 90% of the Faroese government's operating revenue is derived from sources under its control. The Kingdom of Denmark

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provided an annual general-purpose grant of DKK665 million, which accounted for close to 7% of the Faroe Islands' operating revenue in 2024. This grant is for "Joint Matters" that have not been transferred to the Faroese government's control. The grant is intended for, and indeed spent on, social welfare, schools and health sectors, although the Faroese government retains the freedom to decide how the grant is used.

The Faroese relationship with Denmark is stable. In 1948, the Faroe Islands were granted Home Rule, and, in 2005, gained further authority over certain matters. The Faroese government controls special matters that cover the economy; finances, with independence to raise taxes; industry; foreign trade; mineral rights; and the education system.¹ "Joint Matters" are administered by the Danish government according to the laws of the Kingdom of Denmark, although some may be wholly or partly assigned to the Faroe Islands, or undertaken by the Danish and Faroese authorities jointly. Currently, matters under the Danish realm comprise the foreign policy, police force, judicial system and banking supervision. The Faroe Islands elect their own parliament (Lagtinget), and the islands are governed by the Faroese government (Landsstýret), which is responsible for its own finances. In addition, the Faroe Islands have two seats in the Danish parliament, which had some influence in Danish politics historically, particularly in parliaments with thin majorities.

Continuous strong operating performance and liquidity buffers

The Faroe Islands have a consistent track record of sound budgetary results. Because of their strong economic fundamentals, the Faroe Islands have historically generated solid operating revenue, which, along with effective spending-control mechanisms, has led to sound operating results.

In 2024, the Faroe Islands maintained a strong operating performance with a primary operating balance (POB) of 6% of operating revenue, down slightly from 7% in 2023 due to a rise in both tax revenue and operating expenditures of around 3% and 3.6%, respectively. Tax revenue, mostly from Personal Income Tax (PIT), corporate tax and VAT, makes up about 70% of operating revenue and tracks nominal GDP, helping offset inflation. The 2025 budget projects decreases in both operating revenue and expenditure, with a lower POB of roughly DKK439 million, or 4.5% of operating revenue. A stable operating margin of around 7% is likely to persist through 2026.

However, when accounting for interest expenses, capital revenue and capital expenditure, the execution of the 2024 realised budget resulted in a financing deficit of around 1% of its operating revenue, down from the around 2% registered in 2023. Despite the decrease, capital expenditure continues to strain Faroe's financials. We expect a similar budgetary deficit for 2025.

The Faroe Islands have a large liquidity buffer, which helps mitigate negative shocks. Faroese liquidity reserves amounted to DKK4.9 billion as of year-end 2024, accounting for 49% of operating revenue. This level was well above the self-imposed minimum liquidity threshold of DKK3.7 billion in 2024, which is based on 15% of GDP. We expect it to remain above the threshold in 2025, set at DKK3.975 billion (cash on hand accounted by DKK4.2 billion as of August 20th). According to the guidelines, this reserve is only to be used during times of increased market stress — if the reserve is drawn upon and drops below 15% of the GDP, it is likely to be replenished to meet internal limits during the next borrowing round.

The Faroese liquidity reserve accounted for nearly 76% of its outstanding direct debt as of year-end 2024. The reserve amount exceeds necessary borrowing requirements in any single year, and this mitigates the refinancing risk significantly. The liquidity pool is sufficient to cover scheduled debt repayments until 2032. The liquidity reserve fund is invested in a portfolio of highly rated securities, with investments spread across various asset classes with defined limits to maximise the returns. Around 55% of the total liquidity pool is invested in Aaa-rated securities.

Moderate debt levels

The Faroe Islands' net direct and indirect debt (NDID) rose by around 11% in 2024, reaching a moderate 69% of operating revenue, up from 64% in 2023. By year-end 2024, this NDID included DKK6.5 billion in direct debt and an additional DKK0.5 billion in indirect debt, which stems from the government-guaranteed unfunded pension liability with Foroya Livstrygging (LIV). For 2025, funding requirements totalling DKK2.6 billion have already been secured through bonds. This funding covers the repayment of DKK1.6 billion in maturing debt due in June 2025, boosts liquidity and finances budget deficits for 2023 and 2024. As a result, the Faroe Islands' debt burden is projected to rise to about 80.3% of operating revenue in 2025 and is forecast to reach around 83.5% in 2026.

In addition, the government is responsible for the pensions of its civil servants. Such obligations are partly unfunded and could strain future budgets. However, the government has flexibility to manage its obligations, which are considered contingent liabilities.

Municipal debt is considered self-supporting and not included in indirect debt because the government does not provide a guarantee on the debt, and municipalities may only incur a total debt burden up to their level of total tax income in any one year.

The Faroese government has some off-balance-sheet activities and was exposed to public companies' debt amounting to DKK2.7 billion as of year-end 2024. Overall, the company in charge of the tunnels is assessed as self-supporting, so we do not include its debt into the government's NDID ratio. The most noteworthy of these activities is a state-owned project company executing the construction of two tunnel projects (Eysturoy and Sandoyar). The Faroese government provided a minimum traffic revenue guarantee of DKK29 million in 2024, down from DKK47 million in 2023, for the benefit of the company. In 2025, the Faroese government is likely to provide DKK12 million. The tunnel project company is 100% owned by the government, and its debt is a contingent liability.

Narrow economy relying on fishing and fish farming

With a nominal GDP of around DKK27.7 billion (roughly €3.7 billion) in 2024, the Faroe Islands' economy is relatively small compared with that of its similarly rated peers. However, this modest size is balanced by historically steady growth rates and notably high wealth levels. The GDP per capita is DKK508,000 (€68,000) in 2024, aligning with Danish levels (DKK489,000 in 2024), which bolsters the economy's resilience against external shocks.

The Faroe Islands' high income levels and prudent policymaking help offset their vulnerability to shocks and the heavy concentration of their economy in the fisheries sector, mitigating the risks associated with a small and narrowly focused economy. As of July 2025, the unemployment rate was impressively low at just 1%.

The Faroese economy remains heavily dependent on fishing and fish farming, which together account for around 20% of the country's gross value added (approximately 16% from the secondary sector, including the food industry, and more than 60% from the tertiary sector), as well as more than 90% of total goods exports. This reliance makes the nation susceptible to economic fluctuations driven by external factors—such as changes in fish and oil prices (given the fishing fleet's high dependency on oil)—and to risks like stock depletion or natural events, which could have immediate impacts.

Despite these vulnerabilities, the Faroe Islands have benefited in recent years from strong global demand for fish and low oil prices. Additionally, they have significantly reduced their export reliance on Russia, to 9.3% of total exports in 2024 from 23.2% in 2021, while expanding into new and existing global markets.

To further reduce dependencies, the Faroe Islands have increased trade with non-EU countries to more than 50% of total exports. This diversification — both in fish species and trading partners — is an important way to mitigate concentration risk because it lessens exposure to shocks affecting individual species or specific trading relationships.

Growing population with high investments needs

The Faroese population is steadily growing by about a couple of hundred new inhabitants per year. Such population growth strains the government's operations especially with regard to capital investments. The government would need to invest in areas such as new schools, health and social service, culture and infrastructure projects.

The government envisages its capital investments to reach around DKK650 million annually over the next five years, including the IT infrastructure projects, and ring roads in Torshavn and Runavik. In addition, local government companies, like the electricity company SEV, are planning to invest to address infrastructure needs.

A state-owned project company has led the construction of two subsea tunnels connecting Eysturoy and Sandoy, with a total cost of about DKK2.7 billion. The Eysturoy tunnel opened in 2020, and the Sandoy tunnel — the islands' largest infrastructure project — opened in late 2023, greatly reducing construction risk. The 10.8-km Sandoy tunnel, now the longest in the Faroe Islands, connects Streymoy and Sandoy and benefits more than 90% of the population. Two additional Bordoy tunnels began construction in 2021 (estimated DKK520 million) and have been completed earlier in 2025. A tunnel to Suðuroy is planned for 2025-26, subject to costs.

Extraordinary support considerations

The Faroe Islands have a strong likelihood of extraordinary support from the Government of Denmark. This reflects our assessment that the current relationship with the Government of Denmark is unlikely to change. While Denmark has no formal obligation to provide extraordinary support to the Faroe Islands, it has historically supported the Faroese government on a number of occasions. In the 1990s, the Faroese government borrowed — largely from Denmark, given the scale of the crisis — to fund the nationalisation of Føroya

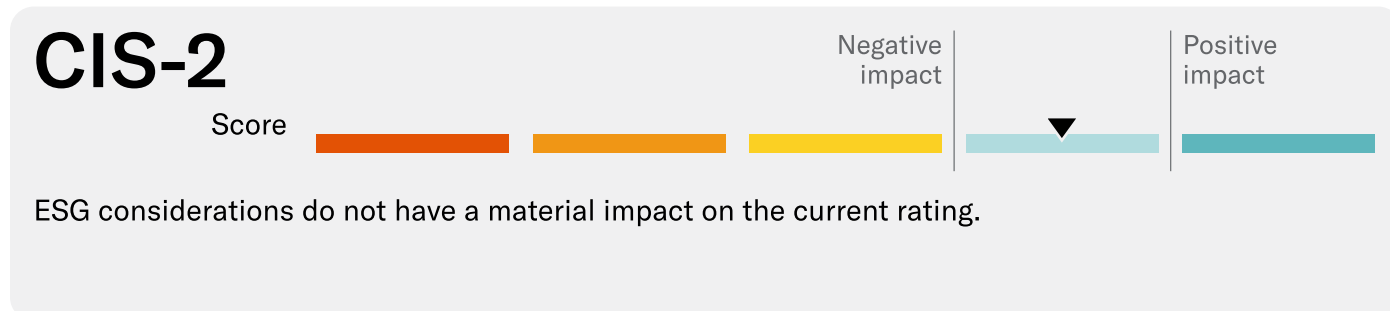
Banki and Sjóvinnubankin and to cover the deficits of their recovery plan. Once these measures were established, the Faroe Islands began standalone borrowing, ultimately using these funds, along with other reforms, to repay Denmark. In 2010, Denmark (through Finansiel Stabilitet) also assumed control over EiK Bank, a failing bank with operations in both the Faroes and the Danish mainland. This action is consistent with Denmark's responsibility for financial regulation (the banking sector). The relationship with Denmark remains important as a likely source of liquidity support, if independent financing were to be tested.

ESG considerations

Faroe Islands' ESG credit impact score is CIS-2

Exhibit 3

ESG credit impact score

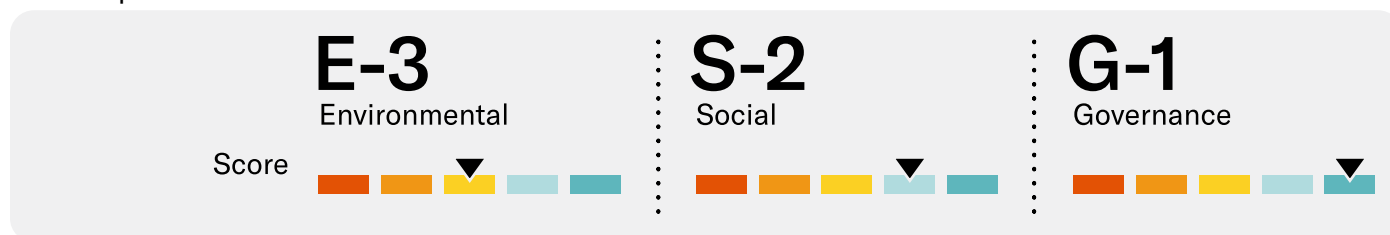


Source: Moody's Ratings

Faroe Islands' ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting moderate exposure to environmental and low exposure to social risks, and strong governance and capacity to respond to shocks.

Exhibit 4

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Faroe Islands' exposure to environmental risks (**E-3**) stems from physical climate risks, including rising sea levels because of rising temperatures, which would affect its important fishing industry. Sharing responsibilities with the Government of Denmark, which would provide support to the Faroese government in the event of natural disasters, helps to mitigate the potential financial impact of these risks for the Faroe Islands. To become completely non-dependent on fossil fuels for power production, the government is aiming to reach a 100% renewable electricity system by 2030.

Social

The (**S-2**) score assigned to Faroe Islands reflects its limited exposure to social risks primarily mirroring demographic pressures stemming from ageing population, declining labour supply and higher pension and social costs. However, Faroe Islands are benefiting from immigration at substantial growth rates, reflecting the attraction to live and work on the islands. In addition, we view the long-term economic and fiscal pressures as comparatively limited, given the labour market and pension reforms. Faroese health and safety risk and access to basic services are in line with those in the advanced economies.

Governance

Governance is **G-1**. This is underpinned by the government's high credibility, transparency and consensus on key economic policy goals. Coupled with exceptionally high wealth levels and financial strength, these support a high degree of resilience.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of aa3 is close to the BCA scorecard-indicated outcome of aa2.

For details about our rating approach, please refer to Regional and Local Governments rating methodology.

Exhibit 5

Faroe Islands, Government of Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
Factor 1: Economy					25%	1.14
Regional Income [1]	0.57	88269.69	15%	0.09		
Economic Growth	9.00	baa	5%	0.45		
Economic Diversification	12.00	ba	5%	0.60		
Factor 2: Institutional Framework and Governance					30%	0.60
Institutional Framework	1.00	aaa	15%	0.15		
Governance	3.00	aa	15%	0.45		
Factor 3: Financial Performance					20%	1.15
Operating Margin [2]	9.74	6.26%	10%	0.97		
Liquidity Ratio [3]	0.50	49.02%	5%	0.03		
Ease of Access to Funding	3.00	aa	5%	0.15		
Factor 4: Leverage					25%	1.26
Debt Burden [4]	5.06	69.31%	15%	0.76		
Interest Burden [5]	5.00	1.67%	10%	0.50		
Preliminary BCA Scorecard-Indicated Outcome (SIO)						(4.14) aa3
Idiosyncratic Notching						0.0
Preliminary BCA SIO After Idiosyncratic Notching						(4.14) aa3
Sovereign Rating Threshold						Aaa
Operating Environment Notching						1.0
BCA Scorecard-Indicated Outcome						(3.14) aa2
Assigned BCA						aa3

[1] Regional GDP per capita in terms of purchasing power parity (PPP) terms, in international dollars

[2] Primary Operating Balance / Operating Revenue

[3] Cash and Cash Equivalents / Operating Revenue

[4] Net Direct and Indirect Debt / Operating Revenue

[5] Interest Payments/ Operating Revenue

Source: Moody's Ratings; Fiscal 2024.

Ratings

Exhibit 6

Category	Moody's Rating
FAROE ISLANDS, GOVERNMENT OF	
Outlook	Stable
Baseline Credit Assessment	aa3
Issuer Rating	Aa2

Source: Moody's Ratings

Endnotes

1 For more information on the division of tasks, see [Delivery of Faroe Islands' Fiscal Plan Supports Creditworthiness](#), published July 2015.

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