MOODY'S RATINGS

Sub-Sovereign

CREDIT OPINION
14 September 2026

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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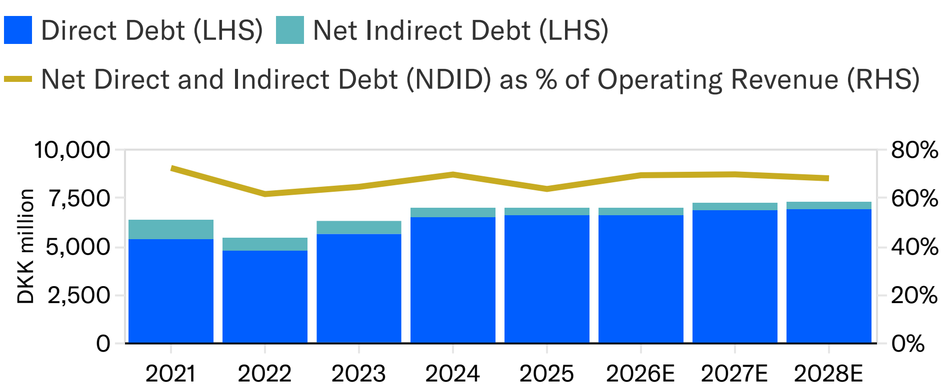
Government of Faroe Islands (Denmark)

Update to credit analysis

Summary

The Faroe Islands' (Aa2 stable) credit profile is supported by its strong fiscal autonomy, prudent financial management and robust liquidity, which enable effective responses to shocks. Its reliable institutions further reinforce stability. However, economic constraints include a narrow, less diversified economy, high investment needs, and a growing population. We also take into account the strong likelihood of the Government of Denmark (Aaa stable) intervening in a timely manner to prevent a default by the Faroe Islands.

Exhibit 1
Faroe Islands' debt levels will remain moderate in 2026-28E



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

Credit strengths

» Strong institutional framework, with long-established fiscal autonomy

» Consistently sound operating performance and strong liquidity buffers

» Moderate debt levels, expected to remain stable over the next two years

Credit challenges

» Narrow economy, which relies on fishing and fish farming

» Growing population, with high investment needs

Rating outlook

The stable rating outlook reflects the Faroe Islands' economic policies, which will continue to support macroeconomic stability. The ongoing strength of its institutions and effective policymaking will further bolster the islands' financial health. Additionally, the stable outlook is supported by its consistently robust liquidity.

Factors that could lead to an upgrade

We could upgrade the Faroese government's rating if its fiscal and financial performance strengthens, as demonstrated by consistently sound results, including growing operating and financing surpluses, larger liquidity buffers to absorb economic shocks, and a significant reduction in its debt burden.

Factors that could lead to a downgrade

Downward pressure on the rating could emerge if the islands' debt burden increases significantly from the current levels, along with sustained financial deficits. A weakening in the Faroese government's relationship with the Government of Denmark could also have negative rating implications. Furthermore, the islands' high reliance on revenue from fishing and fish farming means that any unexpected adverse shock to the Faroese fishing industry could lead to a rating downgrade.

Key indicators

Exhibit 2

Government of Faroe Islands	2021	2022	2023	2024	2025	2026E	2027E	2028E
Primary Operating Balance (POB) as % of Operating Revenues	9.2%	4.4%	7.2%	6.3%	10.7%	4.3%	5.4%	7.2%
Cash and Cash Equivalents as % of Operating Revenues	43.9%	39.6%	42.4%	49.0%	45.2%	46.4%	46.7%	45.0%
Net Direct and Indirect Debt (NDID) as % of Operating Revenues	72.0%	61.2%	64.2%	69.3%	63.3%	69.0%	69.4%	67.8%
Interest Payments as % of Operating Revenues	0.5%	0.5%	1.7%	1.7%	1.4%	1.6%	1.4%	1.4%
Capital Expenses (Capex) as % of Total Expenses	6.0%	6.1%	7.5%	6.0%	10.8%	5.6%	5.3%	5.1%
Cash Financing Result (Surplus or Deficit) as % of Total Revenues	3.4%	-1.8%	-1.8%	-1.1%	-0.2%	-2.6%	-0.6%	1.5%

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 55,348 inhabitants in 2026. While the Faroe Islands are part of the Kingdom of Denmark, they 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 case of need.

Baseline Credit Assessment

Strong institutional framework, with long-established fiscal autonomy

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

The Faroese government has full power and flexibility to set its tax rates and fees, which supports its financial autonomy. Typically, more than 90% of the Faroese government's operating revenue comes from sources under its control. The Kingdom of Denmark provides an annual general-purpose grant for “Joint Matters” that have not been transferred to the Faroese government's control. This grant is intended for and, spent on, the social welfare, education and healthcare sectors, although the Faroese government retains the freedom to decide how it is used. Grants from Denmark have been decreasing and are frozen at DKK541 million from 2026.

The Faroese government's relationship with Denmark is stable. In 1948, the Faroe Islands were granted Home Rule and, in 2005, they gained further authority over certain matters. The Faroese government has control over specific areas such as the economy, finances (including the authority 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 of these matters may be wholly or partly assigned to the Faroe Islands or undertaken jointly by the Danish and Faroese authorities. 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 are governed by the Faroese government (Landsstyret), which is responsible for its own finances. In addition, the Faroe Islands have two seats in the Danish parliament, which have historically influenced Danish politics, particularly in parliaments with thin majorities.

Consistently sound operating performance and strong 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 strong operating results.

In 2025, the Faroe Islands strengthened their operating performance with a primary operating balance (POB) of around 11% of operating revenue, up from 6% in the previous year. The increase mainly reflected the transfer of an investment fund of around DKK700 million from the Government of Denmark to the Government of the Faroe Islands. We treat this as a one-off revenue item with a neutral impact on the Faroe Islands’ finances, as it was also recorded as a one-off capital expenditure. The fund’s activity is likely to remain limited after it granted two loans of around DKK350 million each to two public-sector companies.

Tax revenue, mostly from personal income tax (PIT), corporate tax and value-added tax (VAT), increased by around 3.5% in 2025, accounting for about 66% of total operating revenue. It tracks nominal GDP, helping offset inflation-driven cost increases. The 2026 budget projects the POB will decrease to roughly DKK432 million, or 4.3% of operating revenue, broadly in line with the 2025 result of 4.5% after excluding the one-off revenue from the investment fund takeover. We expect the POB to average around 6% of operating revenue in 2027-28.

However, when accounting for interest expenses, capital revenue and capital expenditure, the realised budget in 2025 resulted in a financing deficit of around 0.2% of total revenue, down from the roughly 1% deficit registered in 2024. Despite the improvement, capital expenditure continues to constrain the Faroe Islands' financials. We expect a budgetary deficit over the next two years.

The Faroe Islands have a large liquidity buffer, which helps mitigates negative shocks. As of the end of 2025, the islands' liquidity reserves totalled nearly DKK5 billion, representing about 45% of their operating revenue and roughly 18% of GDP. This level significantly exceeds the self-imposed minimum liquidity threshold of 15% of GDP. We expect the reserves to remain above this threshold in 2026, with a target set at DKK4.17 billion. According to the government guidelines, the reserve is intended for use only during periods of heightened market stress. If the reserve is drawn down below 15% of 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 2025. 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.

Moderate debt levels, expected to remain stable over the next two years

The Faroe Islands' net direct and indirect debt (NDID) decreased by around 0.1% in 2025, reaching a moderate 63% of operating revenue, down from 69% in 2024. By year-end 2025, this NDID included DKK6.6 billion in direct debt and an additional DKK0.38 billion in indirect debt, which stems from the government-guaranteed unfunded pension liability with Foroya Livstrygging (LIV). For 2026, DKK900 million in funding has been secured through bonds to cover the repayment of maturing debt already repaid in June of this year. Consequently, the Faroe Islands' debt burden is projected to rise to roughly 69% of operating revenue in 2026 and remain at a similar level until 2028.

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

We consider municipal debt self-supporting and not part of indirect debt because the government does not provide a guarantee on this debt, and municipalities are only permitted to incur a total debt burden that does not exceed their annual total tax income.

As of the end of 2025, the Faroese government was exposed to the debt of just one public company totalling DKK2.3 billion through off-balance-sheet activities. This is the company responsible for the tunnel projects which is assessed as self-supporting, so its debt is excluded from the government's NDID ratio. The most significant activity involves a state-owned project company that is executing the construction of two tunnels: Eysturoy and Sandoyar. The Faroese government provided a minimum traffic revenue guarantee of DKK3.4 million in 2025, a significant decrease from the DKK28.6 million in 2024, benefiting the company. In 2026, the government does not expect to make payments under the traffic guarantee, as traffic continues to increase annually. The tunnel project company is 100% owned by the government, and we consider its debt a contingent liability.

Narrow economy that relies on fishing and fish farming

With a nominal GDP of around DKK29.6 billion (roughly €4 billion) in 2025, the Faroe Islands' economy is relatively small compared with that of similarly rated peers. However, this modest size is balanced by historically steady growth rates and notably high wealth levels. The GDP per capita was DKK541,000 (€72,000) in 2025, 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 April 2026, the unemployment rate was impressively low at just 0.9%.

The Faroese economy remains heavily dependent on fishing and fish farming, which together account for around 18% of the country's gross value-added. The secondary sector, including the food industry, accounts for roughly 21%, while the tertiary sector contributes more than 60%. Additionally, fishing and fish farming represent over 90% of the total goods exports. This reliance makes the economy susceptible to fluctuations driven by external factors — such as changes in fish and oil prices (given the fishing fleet's high dependency on oil) — as well as risks of 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 8% of total exports in 2025 from 23.2% in 2021, while expanding into new and existing global markets, such as the US that accounted for around 12% of exports in 2025.

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

Growing population, with high investments needs

The Faroese population is steadily increasing by a few hundred new inhabitants each year. This population growth weighs on government operations, particularly in terms of capital investments. The government will need to invest in areas such as new schools, healthcare and social services, cultural facilities, and infrastructure projects.

The government targets capital investments of around DKK600 million annually over the next five years, including the IT infrastructure projects, university campus in Torshavn and ring roads in Runavik. In addition, local government companies, such as the electricity company SEV, are planning to invest to address infrastructure needs.

A state-owned project company has led several subsea tunnel projects, totalling about DKK2.7 billion. Key projects include the Eysturoy tunnel, opened in 2020, and Sandoy tunnel, opened in late 2023, which reduced construction risk and improved connectivity for over 90% of the population. Additionally, two Bordoy tunnels were completed ahead of schedule in 2025, while a future Suðuroy tunnel remains subject to cost considerations.

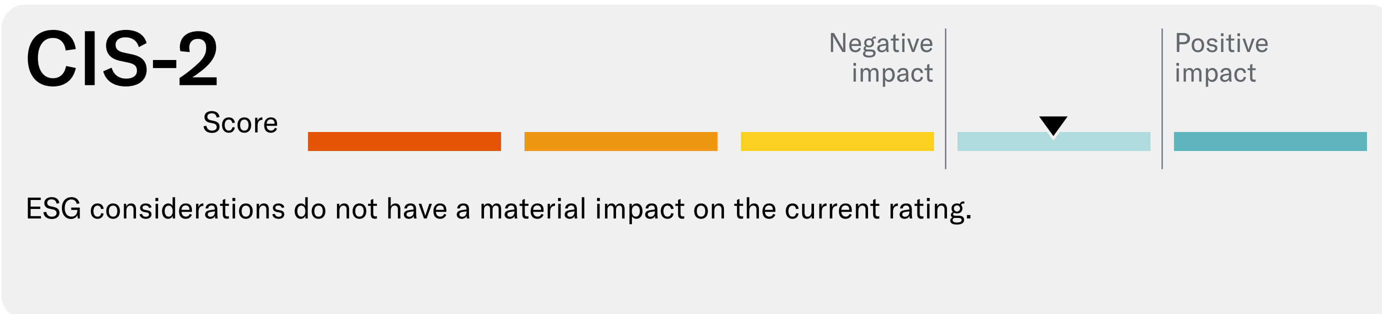
Extraordinary support considerations

We assess that there is a strong likelihood of the Faroe Islands receiving extraordinary support from the Government of Denmark, if necessary, reflecting our view that the islands' 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 Sjovinnubankin 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 Faroe Islands and the Danish mainland. This action is consistent with Denmark's responsibility of financial regulation (the banking sector). The islands' relationship with Denmark remains important, as Denmark is likely to provide liquidity support if the islands' independent financing is tested.

ESG considerations

Faroe Islands' ESG credit impact score is CIS-2

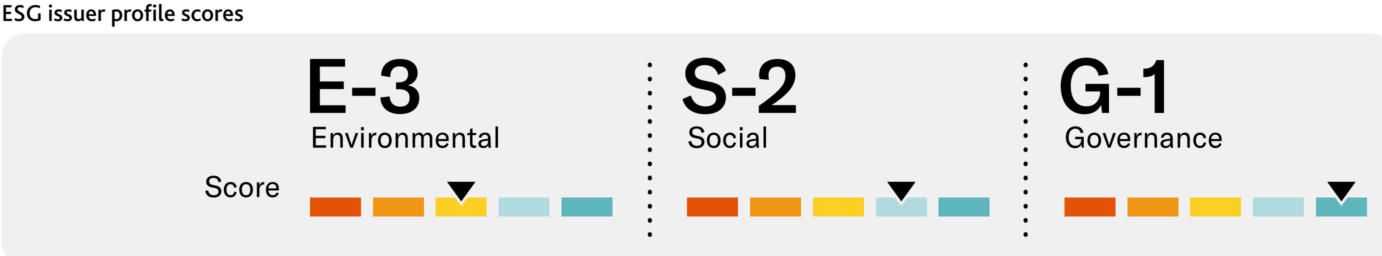
Exhibit 3
ESG credit impact score



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 Moodys.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%**	**1.13**
Regional Income [1]	0.51	89732.02	15%	0.08		
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%**	**0.90**
Operating Margin [2]	7.24	10.70%	10%	0.72		
Liquidity Ratio [3]	0.50	45.22%	5%	0.03		
Ease of Access to Funding	3.00	aa	5%	0.15		
Factor 4: Leverage					**25%**	**1.14**
Debt Burden [4]	4.70	63.34%	15%	0.71		
Interest Burden [5]	4.30	1.43%	10%	0.43		
Preliminary BCA Scorecard-Indicated Outcome (SIO)						**(3.76) aa3**
Idiosyncratic Notching						**0.0**
Preliminary BCA SIO After Idiosyncratic Notching						**(3.76) aa3**
Sovereign Rating Threshold						**Aaa**
Operating Environment Notching						**1.0**
BCA Scorecard-Indicated Outcome						**(2.76) 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 2025.

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 in July 2015.

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