

Rating Action: Iceland, Government of

Moody's assigns Aaa rating to Iceland's new global bond

New York, November 20, 2006 -- Moody's Investors Service has assigned a rating of Aaa to the Republic of Iceland's new five-year, Euro 1 billion global bond. The new bond's rating is in line with the Icelandic government's Aaa ratings on both local and foreign currency debt. The outlook is stable.

"The government's ratings are supported by the country's very advanced state of economic and political development and its healthy public finances," said Moody's lead analyst Joan Feldbaum-Vidra. "Iceland is a dynamic economy with high per capita income and outward-looking financial and manufacturing sectors."

Iceland's general government debt is about 30% of GDP, which is low even by developed country standards, said the analyst, explaining that the new debt issue is part of a strategy to bolster the official foreign exchange reserves held by the Central Bank of Iceland.

"The government believes it is important to strengthen the country's external liquidity to better position it to deal with shocks, particularly because the country's gross external debt, and especially that owed by the banking system, has grown rapidly," said the analyst. While government debt will increase on a gross basis, she furthered, no change in its net debt is expected from the transaction.

She said Moody's has maintained a stable outlook on Iceland's Aaa rating throughout the turmoil that began in February when the financial markets became increasingly concerned about the banks' large foreign currency funding requirements.

"The government's modest debt allows it to deal with systemic problems in any sector of the economy, said Feldbaum-Vidra. "It's also important to note that the banks are already fully funded in anticipation of next year's large amortizations falling due."

New York
Vincent J. Truglia
Managing Director
Sovereign Risk Unit
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Joan Feldbaum-Vidra
Analyst
Sovereign Risk Unit
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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