MOODY'S INVESTORS SERVICE

CREDIT ANALYSIS

Iceland, Government of

Iceland

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This Credit Analysis provides an in-depth discussion of credit rating(s) for Iceland and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

Iceland

	Foreign Currency	Local Currency
Government Bond Rating	Baa3/Negative	Baa3/Negative
Country Ceiling	Baa2	Aa3
Bank Deposit Ceiling	Baa3	A1

Moody's sovereign rating lists

Summary Rating Rationale

Iceland's Baa3 government bond rating reflects moderate economic strength, which balances the high levels of wealth with the small size and undiversified structure of the economy. The post-crisis recovery is now under way and Iceland's short-term growth outlook is favourable. However, a further escalation of the euro area crisis poses a risk to Iceland given that the EU is its main trading partner. Over the medium term, Iceland's growth prospects depend crucially on the outlook for investment, which is in turn dependent to an important degree on the speed with which the extensive capital controls will be abolished.

Iceland exhibits high institutional strength, reflecting the authorities' significant progress in bringing the economy, the financial system and the public finances back onto a sustainable path. The government is in the process of implementing wide-ranging changes to its institutional framework so as to avoid a repetition of the crisis.

We consider Iceland's government financial strength to be low, mainly on account of the still elevated debt burden. At the same time, the government has managed to reduce the budget deficit significantly since the peak in 2008. We expect fiscal consolidation to continue this year, which would lead to the first decline in the country's public debt ratio since the crisis began. While this is an important and positive first step, the Icelandic authorities will need to further strengthen the country's fiscal position and run consistent and substantial primary surpluses in the coming years in order to materially reduce the still very high debt ratio. The Icesave dispute is less of a risk to public finances than previously thought, but remains to be solved. Also, the government's contingent liabilities, mainly arising from its guarantee for Housing Financing Fund liabilities, are very large.

We assess susceptibility to event risk as high, mainly reflecting the risks emanating from the process of capital control liberalisation. At the same time, we acknowledge that the authorities are well aware of the risks of a too rapid liberalisation. By repaying early some of its own obligations (loan payments due to the IMF and the Nordic governments), the government has reduced some of the potential pressure on the ISK exchange rate in the years 2013-14, which are most likely the years during which significant steps in liberalising the capital control regime will be taken. Nevertheless, the size of potential capital outflows remains substantial and the risk of policy mistakes in the context of loosening the controls remains the key event risk for Iceland in our view.

In view of the above risks, we currently maintain a negative outlook on Iceland's Baa3 rating. The outlook could be returned to stable provided the government remains on track to achieve its fiscal target for the year and there are no further legal developments that have a negative impact on the government's fiscal and debt position. The ratings could be upgraded if the economic recovery is sustained, significant fiscal consolidation continues and the exchange rate remains broadly stable during the process of gradual capital control relaxation.

Conversely, the rating could be downgraded if the current commitment to fiscal consolidation showed signs of declining or the remaining legal risks related to a resolution of the Icesave issue resulted in a significantly higher liability for the government than is currently expected.

Economic Recovery Under Way

Factor 1 – Economic Strength: Moderate

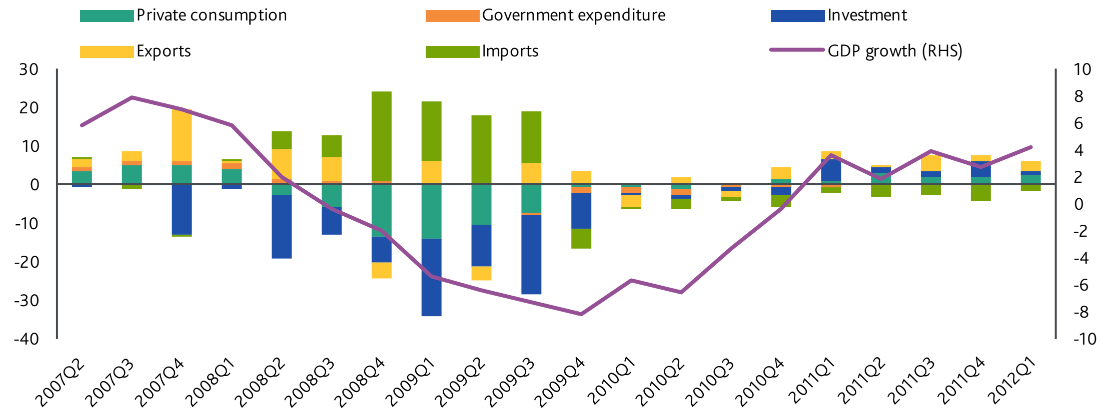
Scale		Very High	High	Moderate	Low	Very Low	
Iceland	+						-

Iceland is considered to have a medium level of economic strength. This balances the high levels of wealth with the small size and undiversified structure of the economy. Iceland's GDP per capita is among the highest in Moody's universe of rated sovereigns despite the significant loss in wealth due to the banking and currency crisis (five year average of approx. $37,000 on a PPP basis as of 2011). This puts Iceland in the same category as Sweden, Denmark, Australia and Canada (all rated Aaa with a stable outlook). In terms of the size of the economy, Iceland is closest to peers like Malta (A3), Namibia (Baa3), Mauritius (Baa1) and Botswana (A2). Similar to Mauritius and Botswana, the economy is also highly concentrated, with approximately 80% of Iceland's goods exports composed of aluminium and fish.

Economic recovery is finally underway

Iceland's economy is now recovering at a reasonably strong pace. Real GDP growth in 2011 was stronger than expected at 3.1% for the year as a whole, and 2012 has also started on a strong note, with GDP growth of 4.2% year-over-year in the first quarter. While a significant part of this was due to a build-up in (fish) inventories, which will likely be reversed over the next quarter or so, it is positive that the recovery is now broad-based, with exports, private consumption and finally also investment contributing positively to growth. Still, real GDP remains around 5% below the peak reached in late 2008.

FIGURE 1
Contribution to real GDP growth (% YoY)



Source: Statistics Iceland

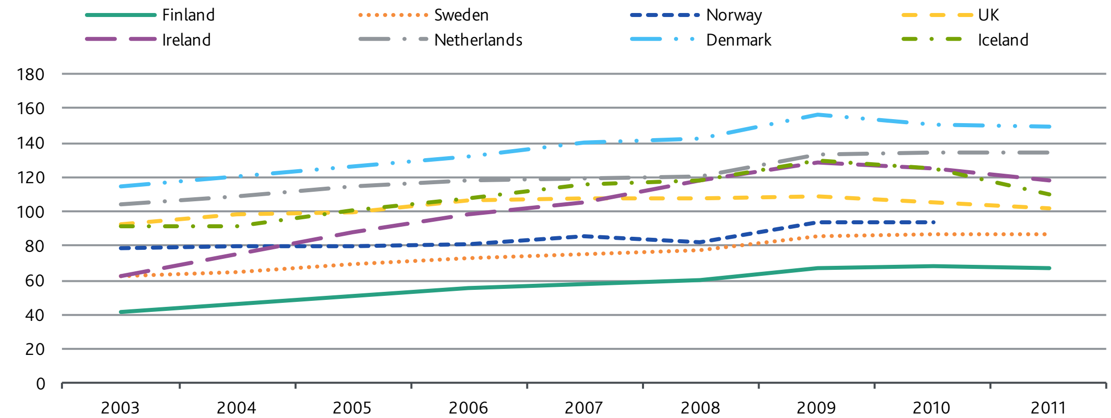
We expect the recovery to remain on track, albeit at a slower pace than last year. Our growth forecast of 2.8% is broadly in line with the forecasts of the central bank (2.6%) and Statistics Iceland (2.8%), which also expect real GDP growth to maintain an annual growth rate of 2.5-3% over the next few years. Growth is expected to be mainly driven by private consumption and investment. Nominal exports are expanding strongly (+4.8% year-over-year in January-May), but given the high import content of investment the net contribution of trade to growth will likely remain negative in the coming years.

Private consumption should benefit from declining unemployment (currently 4.9% on a seasonally adjusted basis compared to a peak of 9.2% in September 2011) and real wage increases (March 2012: +5.3% year-over-year), with low interest rates and declining household debt also supporting consumer confidence.[1] Real estate prices have started to rise again, with prices in the Greater Reykjavik area close to 9% higher in March 2012 than a year earlier, providing further support for household wealth. Household debt has declined to 110% of GDP and 234% of disposable income as of Q1 2012 from a peak of 133% of GDP and 274% of disposable income, respectively, mainly due to extensive debt restructuring and write-downs. The debt level of Icelandic households is now broadly in line with that of households in Denmark (268% of disposable income as of 2010) and the Netherlands (250%), while still significantly above the level in other Scandinavian countries and the UK (140-180%). The level of non-performing household loans stood at 17% of total household loans as of March 2012, compared to 22% in May 2010.[2]

1 The ruling of the Supreme Court in February 2012, which focused on the settlement of illegal foreign-exchange linked loans is expected to provide a significant boost this year to disposable income for a number of households. The central bank estimates that banks will have to reimburse up to ISK6 billion (0.3% of GDP) in cash to households and household debt will be reduced by up to ISK16 billion (0.9% of GDP). Households can also continue to withdraw savings from their third-pillar private pension funds, although at a declining rate. See Central Bank of Iceland: Financial Stability Report, June 2012 and Monetary Bulletin, May 2012.

2 Source: Financial Supervisory Authority, Central Bank of Iceland: Financial Stability Report, June 2012.According to the supervisor's definition of non-performing loans all loans by a customer are considered non-performing as soon as one loan is in arrears for more than 90 days or more (cross-default method).

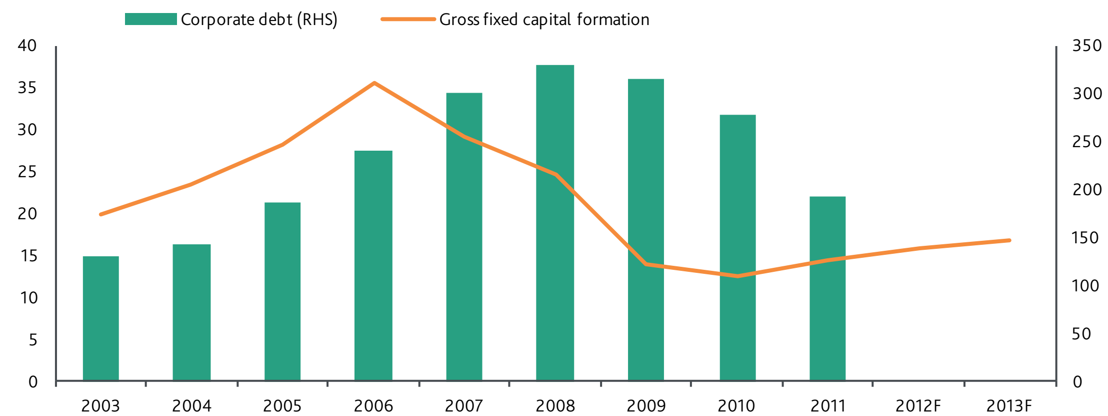
FIGURE 2
Household debt (% of GDP)



Source: Central Bank of Iceland, Eurostat

Gross fixed capital formation has also expanded strongly in 2011 (+13.4% year-over-year in real terms), mainly in the energy-related industries and investments in ships and aircraft. The Icelandic central bank expects continued strong investment this year (+12.4%), with energy-related projects and strong investments in the fishing industry the key drivers. Residential investment is also expected to expand more strongly this year, although the overall investment levels will remain far below the peak and historical averages. Debt restructuring at the corporate level has finally accelerated significantly in the course of 2011, with non-performing corporate loans accounting for 22% of total corporate loans as of March 2012 compared to 48% in December 2009. Corporate debt levels have declined to 186% of GDP in Q1 2012, compared to the peak of 376% of GDP in Q3 2008.

FIGURE 3
Corporate debt and Gross fixed capital formation (% of GDP)



Source: Central Bank of Iceland, Moody's forecasts

Euro crisis is key short-term risk

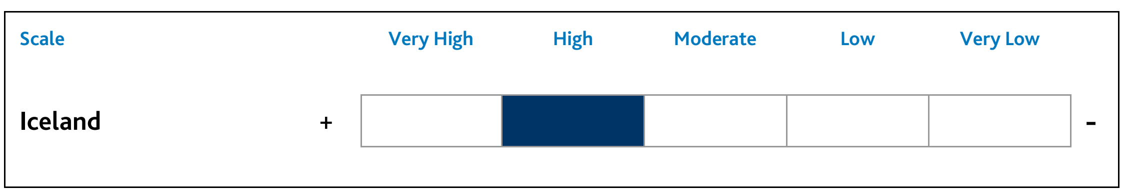
The key short-term risk to this rather benign growth outlook is the euro area crisis. While Iceland is sheltered from financial contagion risks due to the extensive capital controls, the economy would still be affected by a long or severe recession in the euro area, mainly through the trade channel and probably to a lesser extent through lower investment and lower commodity prices.[3] The EU is Iceland's key export market, with goods exports to the EU accounting for 75% of total exports. In the services sector, exports to the EU account for 57% of the total. Tourism would most likely be the most affected industry (close to 6% of GDP and approximately 50% of services exports). However, so far there is no indication of a slowdown. In contrast, the tourism season has been exceptionally strong in 2012, with record numbers of tourist arrivals up to May (+15.4% year-over-year). A key mitigating factor is that most of Iceland's trade (both goods and services) is conducted with other Scandinavian and core euro area countries, particularly the Netherlands and Germany.[4] In the country's two main export industries – aluminium and fish – Iceland is a small but highly competitive producer, hence demand constraints (from weaker growth in export markets) should affect Iceland significantly less than other countries.

Higher investment levels will be crucial for medium-term growth outlook

Iceland's medium-term growth prospects depend crucially on the outlook for investment. Given the small size of the economy, one or two large investment projects (mainly foreign direct investment) can make a significant difference to the growth outlook. In principle, there is significant potential to further develop Iceland's vast hydro and geothermal energy sources. Due to the low cost of (renewable) energy, Iceland will probably continue to be a favoured destination for energy-intensive industries like aluminium smelting. At the same time, however, there is vocal opposition to foreign ownership of the country's natural resources as well as to further investments by multinational corporations in the aluminium industry. The capital controls do not affect foreign direct investment directly as FDI flows are exempt but external funding constraints for the Icelandic utilities have been a major delaying factor.

Institutions Are Being Strengthened To Avoid Repetition of Crisis

Factor 2 - Institutional Strength: High



In Moody's methodology, institutional strength reflects an assessment of the efficiency and predictability of government action as well as the transparency and degree of consensus on key policy goals. A key question is whether existing institutions are conducive to respecting the terms of contracts, in particular those that concern debt payments. Moody's uses both quantitative and qualitative indicators to assess a sovereign's institutional strength.

3 Key origin countries for direct investment in Iceland are the United States, Luxembourg, the Netherlands and to a lesser extent Switzerland and Denmark. Source: Central Bank of Iceland.

4 Key export destinations are the Netherlands (32%), Germany (15%), the UK (9%) and Norway (4%). These countries plus the other Scandinavian countries also accounted for close to 59% of all foreign tourist arrivals in Iceland (2011). Source: Statistics Iceland.

In terms of quantitative indicators, Iceland scores very highly, although the country's relative position has worsened since the crisis on account of the deterioration in the macroeconomic situation. In 2010, Iceland ranked at the 88th percentile of the World Bank's indicators of "Government Effectiveness" and "Rule of Law". Yet, Iceland is generally considered to benefit from a number of clear competitive strengths, such as the country's high-quality education system, its innovative business sector, a flexible labour market and well-developed infrastructure.[5] Also, Iceland has a long tradition of broad cooperation on economic matters between government, employer and employee associations, which is a credit strength.

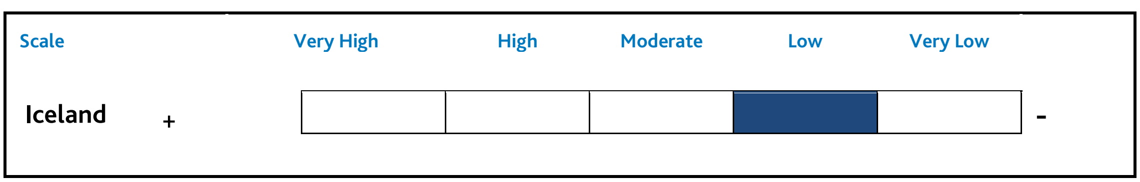
In a more qualitative assessment, Moody's notes positively that the Icelandic authorities have made significant progress in returning the economy and the public finances to a more sound footing and are in the process of implementing wide-ranging changes to the institutional framework so as to avoid a repetition of the crisis.

A new Organic Budget Law is currently being drafted, which would introduce clear principles and a medium-term focus of fiscal policy. The key principles under consideration are (i) the introduction of medium-and long-term broad fiscal objectives that would be legally binding, (ii) the requirement for each new government to present a statement of fiscal policy which would set out its fiscal policy stance for the tenure of Parliament and demonstrate how this is consistent with the above principles, (iii) the strengthening of Parliament's role in monitoring the adherence to the principles and laid-out policy stance while at the same time ensuring that any amendments to the Budget Bill are consistent with the fiscal strategy.[6] The new Organic Budget Law is to be discussed in Parliament at the end of 2012, implying that the first statement of fiscal policy should be presented after the elections in April 2013.

The crisis also revealed the weak fiscal framework for local governments, several of which had to restructure their liabilities with domestic and international lenders. A new Local Government Act was passed in September 2011, which restricts the local authorities' ability to run budget deficits and raise new debt and aligns their fiscal policy stance more closely with that of the central government.[7] The authorities are currently working on developing options for a new monetary framework and exchange rate regime for the time after the liberalisation of capital controls.

Trend Reversal in Very High Public Debt Ratio in 2012

Factor 3 – Government Financial Strength: Low



[5] See World Economic Forum: Global Competitiveness Report 2011-12.

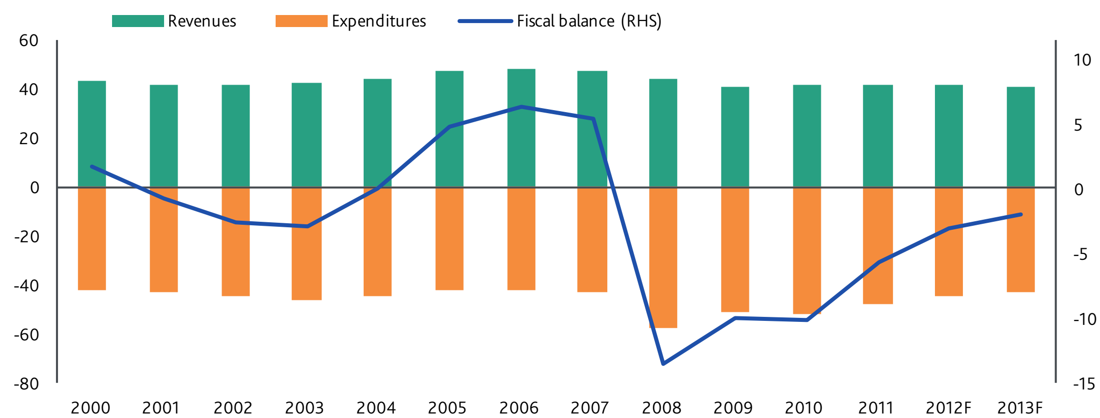
[6] The new Organic Budget Law draws heavily on the recommendations of a technical support mission from the IMF. For a more detailed discussion see IMF: "Iceland: Technical Assistance Report on a New Organic Budget Law", January 2012.

[7] The Bill prohibits municipalities from running operating deficits and requires their debt levels to be kept below 150% of revenues and present a clear plan on how to reduce debt levels to the threshold. It also allows for stricter monitoring by central government. The Bill was a structural benchmark under the IMF program that expired in August 2011.

Iceland has made significant progress in bringing its public finances closer to a sustainable path, reducing the general government budget deficit from a high of 13.5% of GDP in 2008 to 5.6% of GDP in 2011 (including write-offs related to bank recapitalisation).[8] We expect fiscal consolidation to continue this year, with the general government deficit declining to around 3% of GDP and the primary balance registering the first surplus since 2007. This would lead to a trend reversal in the public debt ratio, which we expect to decline to approximately 108% of GDP from the peak of 118.5% of GDP reached in 2011.[9]

FIGURE 4

General government fiscal accounts (% of GDP)



Source: Statistics Iceland, IMF, Moody's

While an important and positive first step, the Icelandic authorities will need to strengthen the country's fiscal position further and run consistent and substantial primary surpluses in the coming years in order to materially reduce the still very high debt ratio. This should certainly be feasible: Iceland has a strong track record of running primary surpluses for an extended period of time, with the average primary surplus in the period 2000-2005 (prior to the boom years) at 3% of GDP. According to IMF calculations, the average primary surplus needed to engineer a meaningful reduction in the public debt ratio in the coming years is very similar at around 3.5% of GDP. However, this requires an ongoing strong political commitment by the next government and a continuation of the economic recovery as the debt trend is very sensitive to the growth outlook. Also, the government currently benefits from an artificially low interest rate level in Iceland – due to the limited investment alternatives available – but this will likely change in 2013 or 2014 when the capital controls are expected to be lifted on a broad basis.[10] Non-resident investors – who would probably exit as soon as possible – hold around 70% of all Treasury Bills and 22.5% of all government bonds.

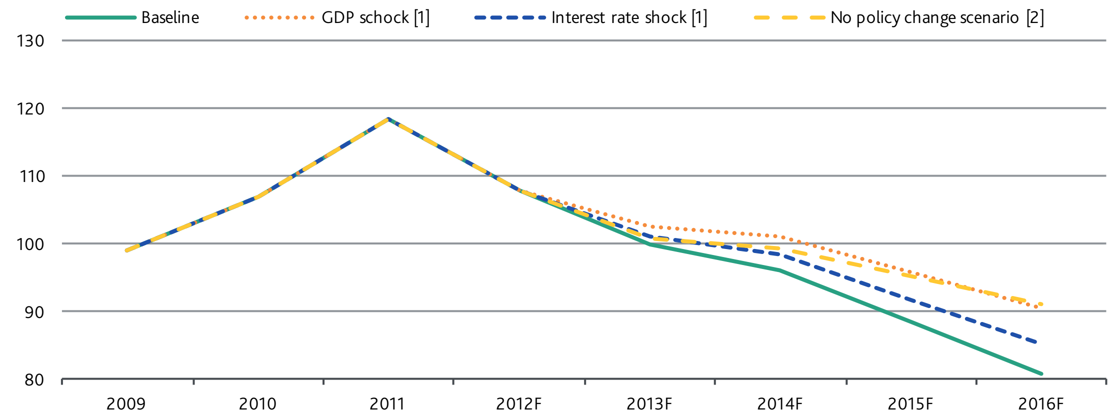
8 Excluding write-offs the peak in the deficit was reached in 2009 with a deficit of 8.6% of GDP. In 2011, the write-off related to the recapitalisation of a savings bank amounts to 1.2% of GDP, hence the deficit stood at 4.4% of GDP if the recapitalisation costs were excluded.

9 The loans from the IMF and the Norwegian government were extended directly to Iceland's central bank to strengthen the foreign-currency reserves. We include both loans into our public debt calculations, in contrast to the IMF.

10 Interest expenditure has declined by 23% between 2009 and 2011 despite a 30% increase in the public debt burden over the same time horizon.

FIGURE 5

General government debt scenarios (% of GDP)



[1] Refers to a permanent one-half standard deviation shock
[2] Refers to a constant primary balance during the period 2013-2016
Source: Moody's

The eventual resolution of the Icesave dispute still constitutes a risk to the public finances and Iceland's debt trajectory although of significantly smaller proportions than assumed in the past. The recovery of assets from the Landsbanki estate is now expected to cover more than the total claims of priority deposit holders and the Winding-Up Board has already repaid 43% of the priority creditors' claims.[11] Whether the Icelandic government has a liability under the EU directive on deposit-guarantee schemes will now be determined by the court of the European Free Trade Association (EFTA). According to IMF estimates, the contingent liability for the Icelandic government ranges from a low of 3% of GDP (assuming the conditions of the last agreement with the UK and the Netherlands and no penalty interest) to over 19% of GDP in a worst-case scenario (settlement to cover insured and uninsured deposit claims plus penalty interest).[12] The EFTA Court is unlikely to rule on the case before the end of the year.

The substantial and liquid assets[13] held by the central government (26.4% of GDP as of April 2012) are a mitigating factor for the high debt ratio. In net terms, Iceland's debt ratio would stand at an estimated 81.5% of GDP at the end of 2012, broadly in line with many EU countries. Moreover, unlike most European countries, Iceland has very large and fully-funded pension funds, bolstering the government's long-term fiscal sustainability.[14]

Repayment schedule is manageable

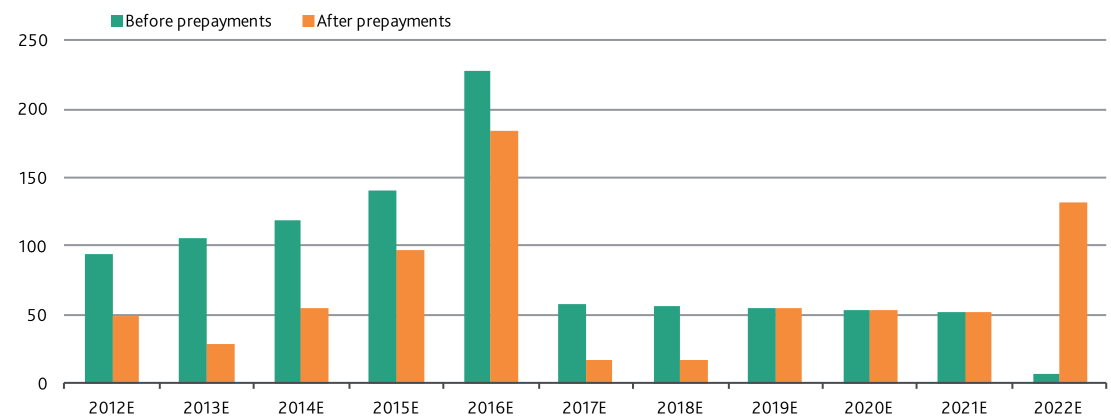
The decline in the debt ratio expected for the year is also partly due to the early repayment of a substantial part of the IMF and bilateral loans extended to Iceland by the Nordic governments at the height of the crisis.[15] In total, the Icelandic authorities have repaid early around 56% of their total emergency funding support received from the Nordics and the IMF, partly replacing them with financing obtained from the private capital markets. In our view, the key benefit of the transactions lies

11 See http://www.lbi.is for more details.
12 See IMF: 2012 Article IV Consultation and First Post-Program Monitoring Discussion, April 2012.
13 Liquid assets include currency and deposits only.
14 Pension fund assets stand at around ISK2,241 billion as of May 2012, equivalent to 128% of GDP. Only civil servants pensions, amounting to approx. 20% of GDP, are unfunded.
15 The combined loans amounted to the equivalent of 33% of GDP. For details on the two pre-payment transactions see Issuer Comment: Iceland's Prepayments of IMF and Nordic Government Loans Are Credit Positive (PBC_143316) and Iceland: Early repayment of part of IMF and Nordic loans (PBC_140810)

in significantly smoothing out and lengthening the maturity profile of the government's external repayment schedule, which is now more manageable. In particular, there are no further significant repayments in 2013 and 2014, the most likely period for a significant relaxation of the capital controls. Part of the early payments was funded out of Iceland's foreign-currency reserves. While the reserves still stand at a high level of close to 50% of GDP (ISK 851 billion as of June 2012), Iceland will need to maintain a very high level of foreign-exchange reserves for the process of capital control liberalisation.

FIGURE 6

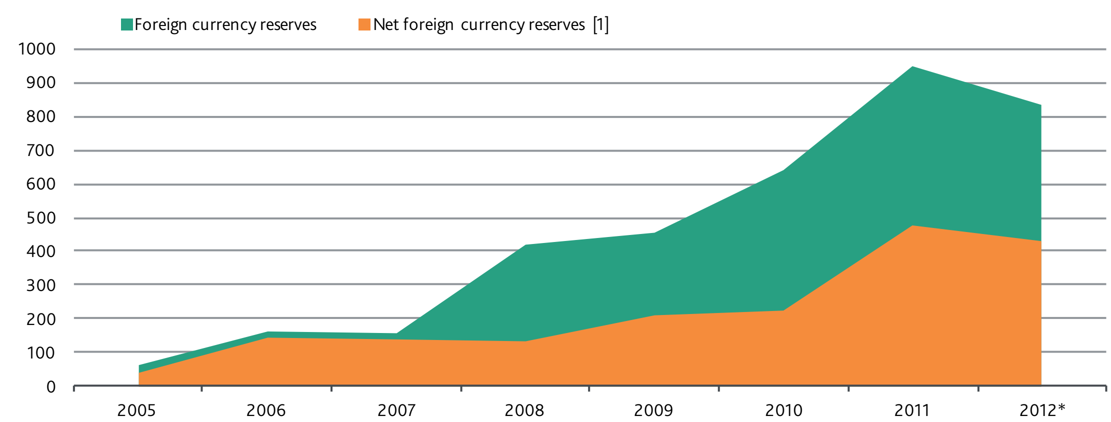
Treasury and Central Bank foreign debt payment schedule (ISK billion)



Note: Includes projected interest due
Before prepayments as of end-March 2012
Source: IMF, Government Debt Management, Bloomberg, Moody's

FIGURE 7

Foreign currency reserves (ISK billion)



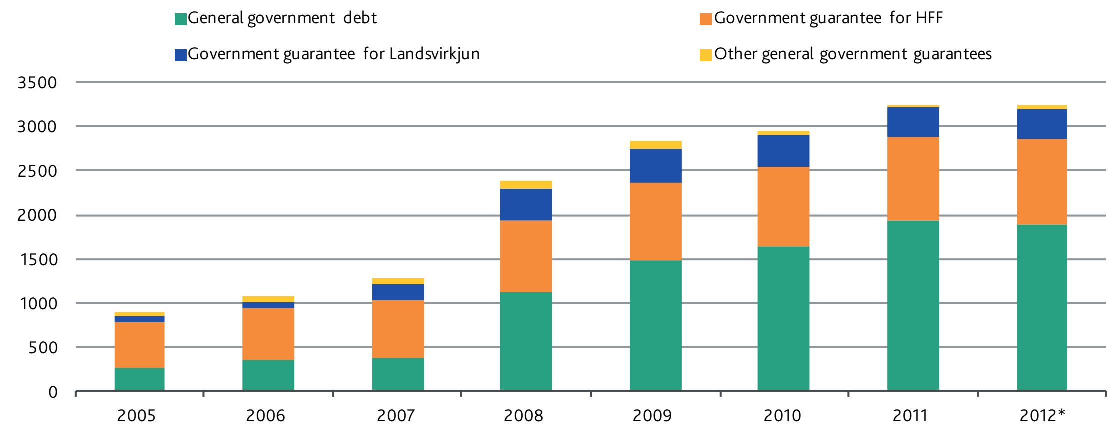
* As of June 2012
[1] Foreign currency reserves excluding short-term net drains on foreign currency assets
Source: Central Bank of Iceland

Contingent liabilities are still very high

The Icelandic government still has a high level of guarantees for government-related entities outstanding, in particular for the national power company Landsvirkjun and the Housing Financing Fund HFF (both rated Baa3, negative). While we are not particularly concerned about Landsvirkjun, whose operating performance has improved substantially and which has obtained funding from abroad since 2011, HFF continues to constitute an important contingent liability for the sovereign. Even after the recapitalisation last year, the institution remains poorly capitalised and the government guarantee amounts to 55% of GDP. In a positive step, legislation to increase supervision of HFF activities and limit the Fund's ability to extend high-value loans has recently been passed by parliament.

FIGURE 8

General government debt and guarantees (ISK billion)

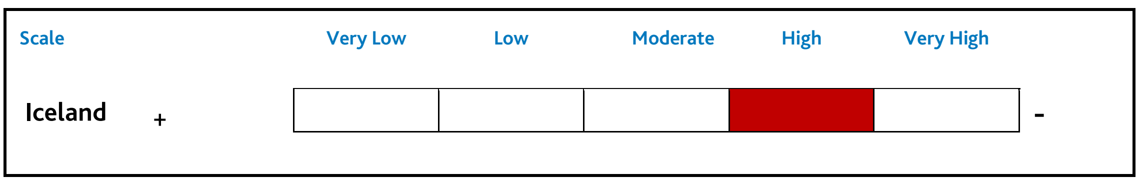


* As of May 2012

Source: IMF, Iceland Debt Management, Moody's

Policy Mistakes in Context of Loosening of Capital Controls Is Key Event Risk

Factor 4 – Susceptibility to Event Risk: High



An excessively rapid relaxation of capital controls continues to constitute the biggest event risk for Iceland going forward as the potential capital outflows are substantial and could easily destabilise the currency. An important mitigating factor is the Icelandic authorities' awareness of such risks and the likely continuation of their gradual approach, as detailed in the capital account liberalisation strategy of March 2011.[16] At the same time, the domestic pressure to ease the controls rather sooner than later is building.[17] Also, the current authorisation for maintaining the extensive controls will expire at the end of 2013 and would need to be extended by parliament unless the controls were to be lifted by then.

We will consider moving our assessment of susceptibility to event risk back to moderate once there is more evidence that the liberalisation process will not endanger exchange rate and financial stability. Also, legal risks have materially declined over the past year but are by no means negligible. The balance sheets of both the government (mainly related to Icesave) and the banking sector (mainly related to decisions on legality of foreign-exchange linked loans) can potentially be affected by pending legal

[16] See http://www.sedlabanki. is

[17] See for example Confederation of Icelandic Employers: Plan for lifting capital controls, April 2012.

decisions. According to central bank estimates non-resident investors hold liquid ISK assets of approximately ISK425 billion (24% of estimated 2012 GDP), of which short-term bank deposits amount to ISK142 billion (8% of total deposits in the banking system). In addition, the central bank estimates that approximately ISK190 billion (11% of GDP) will have to be paid out from the estates of the failed banks to foreign creditors, adding to the potential exchange rate pressure.[18] At the same time, managing these outflows should now be easier as the central bank has revoked the exemption from the capital controls for the estates of the failed banks in March 2012.

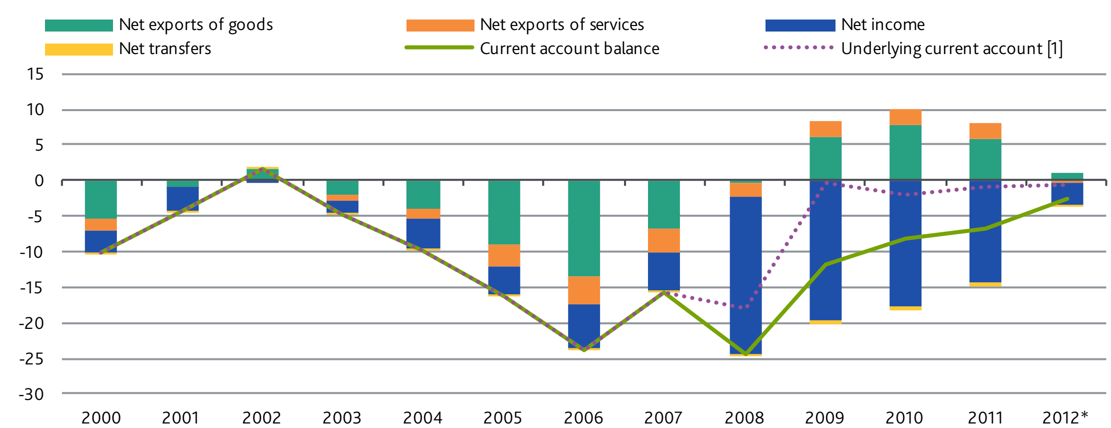
The liberalisation of capital controls also has the potential to negatively affect the domestic banking system if not managed carefully. Total deposits at risk of leaving the system add to ISK290 billion or close to 17% of total deposits in the banking system. At the same time banks have very limited funding alternatives to deposits. The Central Bank of Iceland and the Financial Supervisory Authority (FME) therefore stipulate that the banks need to maintain very high liquidity ratios. According to stress tests performed by the central bank and the FME, the three major commercial banks would be able to withstand substantial deposit withdrawals in the context of capital account liberalisation but the authorities are currently reviewing their liquidity rules further.

Underlying external position is improving

In the foreseeable future, Iceland's balance of payments will continue to be heavily influenced by the settlement of the estates of the failed banks and the sequencing of capital control liberalisation. At the same time, however, the country's underlying external position is improving quite rapidly. The trade balance has shifted into a sustained surplus since 2009, amounting to 8% of GDP in 2011, compared to a peak deficit of 17.5% of GDP in 2006. Excluding transactions related to the banks that are in a winding-up process, the current account is also close to balance.[19]

FIGURE 9

Current account (% of GDP)



* as of Q1 2012.
[1] Excludes DMBs undergoing winding-up proceedings and accrued interest payments on intra-company debt of a large multinational
Source: Central Bank of Iceland, Moody's

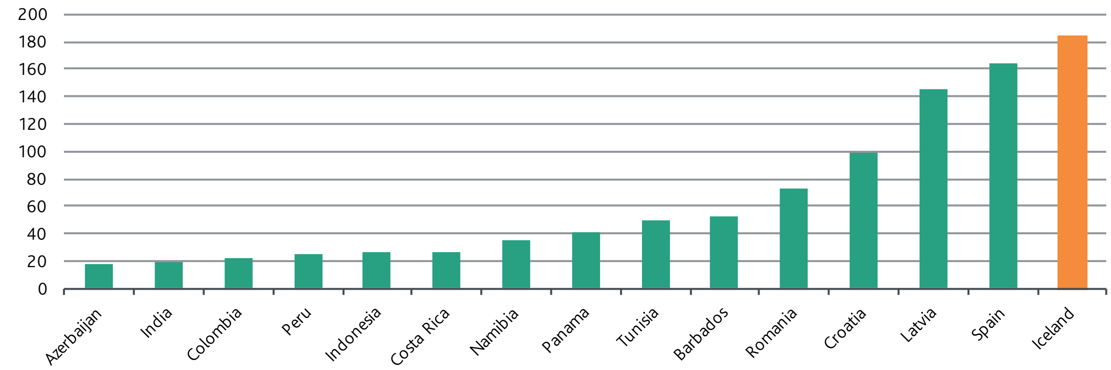
[18] For more details see Central Bank of Iceland: Financial Stability Report, June 2012.

[19] Since 2009, the current account also excludes accrued interest payments on intra-company debt held by a large multinational.

Iceland's external debt is also on a declining trend, when excluding those liabilities of the banks in winding-up process that are unlikely to be repaid. According to estimates by the central bank, Iceland's underlying external debt amounts to 185% of GDP in 2011 compared to a high of over 600% of GDP in 2007.[20] Still, Iceland's external debt levels continue to be significantly higher than those of similarly rated sovereigns.

FIGURE 10

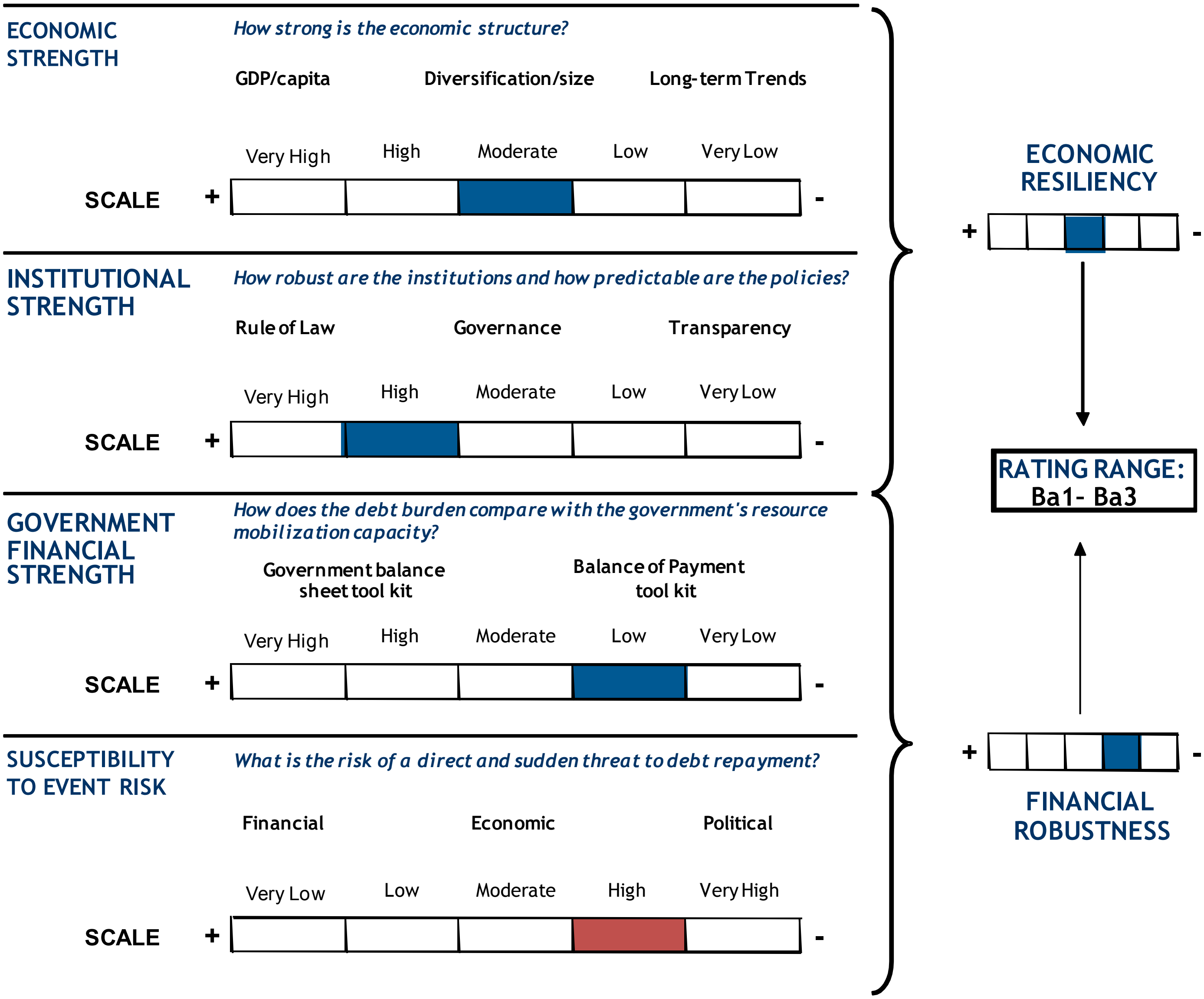
External debt of Baa3 rated countries (2011, % of GDP)



Source: Various central banks, IMF

[20] As with the current account, the external debt calculation is based on the central bank's current estimates for the settlement of the failed banks' liabilities and excluding the intra-company debt of a large multinational operating out of Iceland. See Central Bank of Iceland: Monetary Bulletin, May 2012. The numbers are also in line with the IMF calculations. See IMF: 2012 Article IV Consultation and First Post-Program Monitoring Discussion, April 2012.

Sovereign Rating Mechanics[21]: Iceland



[21] Link to our Sovereign Bond Rating Methodology

Rating History

Iceland

	Foreign Currency Ceilings				Government Bonds			
	Bonds & Notes		Bank Deposit		Foreign Currency	Local Currency	Outlook	Date
	Long-term	Short-term	Long-term	Short-term				
Outlook changed	Baa2	--	Baa3	--	Baa3	Baa3	Negative	Jul-10
Outlook changed	Baa2	--	Baa3	--	Baa3	Baa3	Stable	Apr-10
Outlook changed	Baa2	--	Baa3	--	Baa3	Baa3	Negative	Apr-10
Outlook changed	Baa2	--	Baa3	--	Baa3	Baa3	Stable	Nov-09
Rating Lowered	Baa2	P-3	Baa3	P-3	Baa3	Baa3	--	Nov-09
Rating Lowered	A2	P-2	Baa1	P-2	Baa1	Baa1	Negative	Dec-08
Rating Lowered & Review for Downgrade	Aa1	--	A1	--	A1	A1	RUR-	Oct-08
Review for Downgrade	--	--	Aa1	--	Aa1	Aa1	RUR-	Sep-08
Rating Lowered	--	--	Aa1	--	Aa1	Aa1	Stable	May-08
Outlook Changed	--	--	Aaa	--	Aaa	Aaa	Negative	Mar-08
Rating Raised	Aaa	--	Aaa	--	Aaa	--	Stable	Oct-02
Rating Assigned	--	--	--	--	--	Aaa	--	Jul-97
Rating Raised	Aa3	--	Aa3	--	Aa3	--	Stable	Jul-97
Review for Upgrade	A1	--	A1	--	A1	--	RUR+	Jun-97
Outlook Assigned	--	--	--	--	--	--	Positive	Mar-97
Rating Raised	A1	--	A1	--	A1	--	--	Jun-96
Review for Upgrade	A2	--	A2	--	A2	--	RUR+	Apr-96
Rating Assigned	--	--	A2	P-1	--	--	--	Oct-95
Rating Assigned	--	P-1	--	--	--	--	--	Oct-90
Rating Assigned	A2	--	--	--	A2	--	--	May-89

Annual Statistics

Iceland, Government of

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Economic Structure and Performance												
GDP Nominal (US$ Bil.)	8.9	11.0	13.3	16.3	16.7	20.4	16.9	12.1	12.6	14.1	13.8	14.5
Population (Mil.)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
GDP per capita (US$)	30,979	37,890	45,370	54,885	54,814	65,566	53,088	37,974	39,463	44,071	42,935	44,387
GDP per capita (PPP basis, US$)	31,088	30,750	33,790	34,889	35,896	37,151	39,762	36,748	35,571	37,115	--	--
Nominal GDP (% change, local currency)	5.8	3.1	10.5	10.3	13.9	12.0	13.3	0.9	2.6	6.3	7.6	7.0
Real GDP (% change)	0.1	2.4	7.8	7.2	4.7	6.0	1.3	-6.8	-4.0	3.1	2.8	2.6
Inflation Rate (CPI, % change, Dec/Dec)	2.0	2.8	3.9	4.1	7.0	5.9	18.1	7.5	2.5	5.3	4.2	4.0
Gross Investment/GDP	18.2	19.8	23.5	28.2	35.6	29.0	24.7	13.9	12.6	14.4	15.6	15.3
Gross Domestic Savings/GDP	19.8	16.7	17.9	15.9	17.4	18.3	21.9	22.3	22.7	22.5	22.9	23.3
Nominal Exports of G & S (% change, US$ basis)	8.5	12.8	20.0	14.5	3.9	31.8	5.6	-14.7	10.5	16.5	-0.9	5.7
Nominal Imports of G & S (% change, US$ basis)	1.2	28.2	28.4	36.2	17.2	10.2	-14.2	-32.5	8.0	22.1	1.0	4.3
Openness of the Economy[1]	73.3	71.6	73.8	75.7	82.7	80.0	91.5	97.0	102.2	108.6	110.4	110.9
Government Effectiveness[2]	2.02	2.14	2.13	2.01	1.93	1.77	1.62	1.65	1.58	--	--	--
Government Finance												
Gen. Gov. Revenue/GDP	41.7	42.8	44.0	47.1	48.0	47.7	44.1	41.1	41.5	41.7	41.7	41.0
Gen. Gov. Expenditure/GDP [3]	44.3	45.6	44.0	42.2	41.6	42.3	57.6	51.0	51.6	47.3	44.7	43.0
Gen. Gov. Financial Balance/GDP [3]	-2.6	-2.8	0.0	4.9	6.3	5.4	-13.5	-10.0	-10.1	-5.6	-3.0	-2.0
Gen. Gov. Primary Balance/GDP	0.4	-0.1	2.4	7.1	8.5	8.0	-10.2	-4.8	-4.3	-0.9	2.3	3.2
Gen. Gov. Debt (US$ Bil.)	4.23	4.84	5.24	4.14	4.91	6.16	9.25	11.87	14.27	15.74	14.79	14.48
Gen. Gov. Debt/GDP [4]	41.7	40.8	34.4	25.4	30.1	29.1	75.3	99.1	107.0	118.5	107.8	99.9
Gen. Gov. Debt/Gen. Gov. Revenue [3]	99.6	97.9	80.4	57.8	64.0	60.6	157.9	224.8	260.4	285.6	258.6	239.5
Gen. Gov. Int. Pymt/Gen. Gov. Revenue [3]	7.2	6.4	5.5	4.7	4.5	5.4	7.6	12.7	14.0	12.5	12.8	12.8
Gen. Gov. FC & FC-Indexed Debt/GG Debt	57.1	56.1	52.0	40.8	55.6	45.7	39.3	38.4	36.3	41.5	27.0	27.0
External Payments and Debt												
Nominal Exchange Rate (local currency per US$, Dec)	80.6	71.0	61.0	63.0	71.7	61.9	120.6	124.9	115.1	122.7	127.9	129.5
Real Eff. Exchange Rate (% change)	6.2	6.3	3.0	12.4	-7.0	5.5	-21.4	-19.2	5.0	1.4	--	--
Current Account Balance (US$ Bil.) [5]	0.1	-0.5	-1.3	-2.6	-4.0	-3.2	-3.0	0.9	0.9	0.4	0.6	0.7
Current Account Balance [5]/GDP	1.5	-4.8	-9.8	-16.2	-23.8	-15.7	-18.0	7.9	7.2	2.7	4.4	4.6
External Debt (US$ Bil.)	11.2	16.5	27.2	46.6	72.5	120.1	122.7	28.9	28.7	29.2	24.1	22.0
Public Sector External Debt/Total External Debt	27.0	18.8	12.8	5.3	4.7	3.3	5.6	23.4	25.5	29.6	25.0	28.0
Short-term External Debt/Total External Debt	25.5	23.9	21.5	15.9	16.5	33.3	48.5	15.5	21.7	16.8	14.5	5.4
External Debt [6]/GDP	110.6	139.6	178.8	285.9	444.3	567.9	998.1	241.7	215.1	220.0	176.0	151.9
External Debt [6]/CA Receipts [7]	308.9	400.5	547.7	708.3	914.5	1045.8	1417.1	427.3	406.2	338.3	288.5	245.6
Interest Paid on External Debt (US$ Bil.)	0.3	0.3	0.4	0.8	1.8	3.0	3.2	1.5	1.6	1.3	1.0	0.8
Amortisation Paid on External Debt (US$ Bil.)	1.5	2.1	2.6	3.7	4.7	17.9	10.6	14.7	13.3	12.1	7.5	2.1

Iceland, Government of

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Net Foreign Direct Investment/GDP	-2.7	-0.4	-13.9	-24.6	-10.2	-16.5	30.4	-18.2	20.7	7.4	5.1	4.8
Net International Investment Position/ GDP	-78.3	-67.6	-77.5	-84.1	-100.5	-115.3	-503.0	-700.7	-672.2	-534.8	--	--
Official Foreign Exchange Reserves (US$ Bil.)	0.4	0.8	1.0	1.0	2.3	2.5	3.5	3.6	5.6	7.7	7.4	5.0
Net Foreign Assets of Domestic Banks (US$ Bil.)	-5.6	-9.4	-17.2	-28.4	-33.8	-24.3	-0.8	-0.1	0.7	1.7	--	--
Monetary, Vulnerability and Liquidity Indicators												
M2 (% change Dec/Dec)	15.3	17.5	14.9	23.2	19.4	56.8	32.1	-1.1	-9.9	7.2	--	--
Monetary Policy Interest rate (% per annum, Dec 31)	5.8	5.3	8.3	10.5	14.3	13.8	18.0	10.0	4.5	4.8	--	--
Domestic Credit (% change Dec/Dec)	11.1	28.2	39.3	62.8	43.1	15.4	-33.0	-0.6	-6.3	-6.6	--	--
Domestic Credit/GDP	104.8	130.3	164.2	242.4	304.6	314.0	185.6	182.8	166.9	146.8	--	--
M2/Official Forex Reserves (X)	11.8	8.6	8.6	10.3	4.8	7.8	3.9	3.5	2.3	1.6	--	--
Total External Debt/Official Forex Reserves	2,702.6	2,164.5	2,678.7	4,614.9	3,187.7	4,713.4	3,518.9	795.2	516.2	379.1	326.1	440.1
Debt Service Ratio [8]	49.0	56.8	59.6	68.3	81.4	181.9	156.3	226.8	197.7	143.6	99.4	31.9
External Vulnerability Indicator [9]	1,014.0	1,099.3	815.1	865.4	1,196.3	1,326.0	2,032.6	1,747.5	451.3	270.8	123.5	58.6
Liquidity Ratio [10]	322.5	163.8	95.1	110.8	74.9	162.4	233.8	309.7	151.1	147.8	--	--
Total Liab. due BIS Banks/Total Assets Held in BIS Banks	776.4	466.2	359.4	312.6	205.9	305.2	400.6	525.0	231.5	246.6	--	--

Notes:

[1] Sum of Exports and Imports of Goods and Services/GDP

[2] Composite index with values from -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions

[3] Excludes interest from IceSave

[4] Based on IMF data as of June 2011. Does not include any guarantee on UK/Dutch Icesave loans. Based on IMF estimates, the "net present value" of the guarantee on UK/Dutch Icesave loans (after asset recovery) is 6.5% of GDP.

[5] Excludes DMBs undergoing winding-up proceedings and Actavis

[6] From 2009 onwards, excludes DMBs undergoing winding-up proceedings

[7] Current Account Receipts

[8] (Interest + Current-year Repayment of Principle)/Current Account Receipts

[9] (Short-term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves

[10] Liabilites to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks

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Report Number: 144124

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