

Fitch Changes Iceland's Outlook to Negative

Fitch Ratings-London-1 April 2008: Fitch Ratings has today revised the Outlooks for the Republic of Iceland's Long-term foreign and local currency Issuer Default ratings (IDR) to Negative from Stable. The Long-term foreign and local currency IDRs are affirmed at 'A+' and 'AA+' respectively, as is the Short-term IDR of 'F1' and the Country Ceiling of 'AA-' (AA minus).

The Outlook revisions follow Fitch's placement today of Iceland's three largest banks, Glitnir Banki hf., Kaupthing Bank hf. and Landsbanki Islands, on Rating Watch Negative (RWN).

“Should Fitch decide that the credit profile of Iceland's major banks has deteriorated, downward pressure on Iceland's sovereign ratings could result, if Fitch judges that the risks to macroeconomic stability and sovereign creditworthiness arising from distress in the banking system have materially increased,” says Paul Rawkins, Senior Director in Fitch's London-based sovereign rating team.

Fitch says that, although the Icelandic authorities have recently issued a statement expressing their willingness to provide support to the banking system, as yet they have received no request nor judged that direct liquidity or any other support is required. The rating agency also reiterates that the sovereign's credit fundamentals remain strong, with net general government debt of just 8% of GDP, a succession of budget surpluses since 2004 and a very low debt service burden. In addition to this favourable credit profile, the authorities have a range of financial options open to them, including the issuance of foreign as well as domestic debt and draw downs of committed credit lines from major international financial institutions. Nonetheless, the sheer size of the Icelandic financial system – close to 900% of GDP on a consolidated basis at end-June 2007 – underscores the importance of appropriate and measured policy responses to banking distress that will provide support and restore confidence in the banks without imperilling sovereign creditworthiness.

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