MOODY'S
INVESTORS SERVICE

CREDIT ANALYSIS

Iceland

Iceland

Table of Contents:

SUMMARY RATING RATIONALE 1
Factor 1 – Economic Strength: MODERATE 2
Factor 2 – Institutional Strength: HIGH 5
Factor 3 – Government Financial Strength: LOW 7
Factor 4 – Susceptibility to Event Risk: HIGH 9
RATING HISTORY 10
SOVEREIGN MECHANICS: ICELAND 11
ANNUAL STATISTICS 12
MOODY'S RELATED RESEARCH 15

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This Credit Analysis provides an in-depth discussion of credit rating(s) for Philippines 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 list

Summary Rating Rationale

Iceland has made significant progress to bring its economy, financial system and public finances back onto a sustainable path, with the economy showing the first signs of positive growth. A moderate recovery is expected, based mainly on exports and investment. However, uncertainties remain, mainly related to the outlook for investment, against a background of slow corporate debt restructuring and funding constraints due to capital controls.

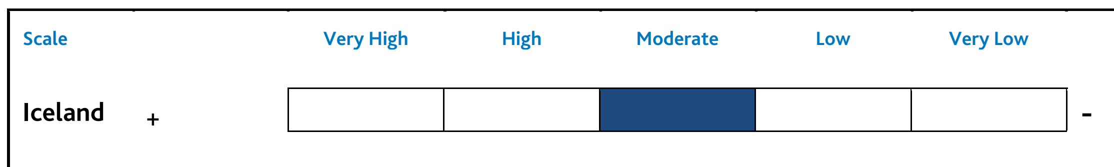
Iceland's institutional strength is considered to be high. There are no concerns over the ability and willingness of the Icelandic government to honour its own financial obligations when due. The authorities are still in the process of adapting the policy framework in major areas. The banking sector has been recapitalized and regulation and supervision have been improved, although some weaknesses persist. The first steps in relaxing the strict capital controls have been taken but the process is generally expected to take some time. In addition, the supervision of local authorities needs to be strengthened. The Icesave dispute is less of a risk to public finances than previously thought, but remains unresolved.

The fiscal picture is improving. The budget deficit has been reduced according to plans in 2010 and the 2011 target is also achievable. The public debt ratio is expected to stabilise this year and then decline from 2012 onwards. However, this scenario requires on-going strong commitment to fiscal consolidation for many years to come. The revised medium-term fiscal strategy and the 2012 budget proposal, which will be presented soon, should give important indications of the government's resolve to return public debt to a more easily manageable level.

Susceptibility to event risk is assessed as high, mainly on account of the remaining litigation risks and the risks entailed in the process of capital control liberalisation. We will consider moving our assessment to moderate once there is a track record of successful steps in liberalising the capital controls. An overly rapid relaxation of the controls constitutes the biggest event risk for Iceland, as the size of trapped holdings of foreign investors is substantial and their exit needs to be managed carefully.

Factor 1 – Economic Strength: MODERATE

Tepid recovery on its way

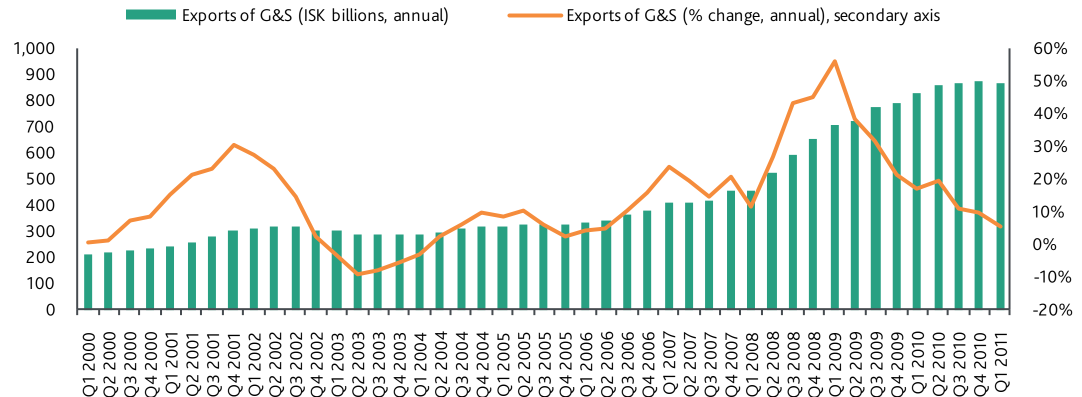


Iceland is considered to have a medium level of economic strength. This balances the high levels of wealth with the small size and undiversified structure of the economy. Iceland's GDP per capita is among the highest in our rating universe, despite the significant loss in wealth due to the banking and currency crisis (five year average of approximately $37,000 on a PPP basis as of 2010). This puts Iceland in the same category as Sweden, Denmark and Canada (all rated Aaa with a stable outlook). In terms of size of the economy, Iceland is closest to peers like Malta (A1), Mauritius (Baa2) and Botswana (A2). Similar to Mauritius and Botswana, the economy is also highly concentrated, with approximately three-quarters of goods exports composed of aluminium and fish.

Moderate recovery expected in 2011, mainly driven by exports and some foreign investment

The recovery of the Icelandic economy has been slower and more moderate than expected but the first quarter of 2011 finally saw the first positive year-over-year growth numbers since Q2 2008. While GDP estimates are often revised subsequent to their first publication (sometimes drastically), we expect the recovery to take hold with real GDP growth of around 2% in 2011 and to accelerate into 2012 (real GDP growth of 2.9%), in line with consensus. Exports and energy-related investment projects are likely to be the main drivers of the recovery, although export growth has shown further signs of slowing down from the rapid pace seen in 2009 and early 2010. We also note that export growth in 2010 was mainly driven by rising export prices rather than volume increases. Aluminium and fish, Iceland's main export products, are subject to important capacity constraints that limit the scope and speed with which exporters can benefit from the more favourable exchange rate.

EXHIBIT 1
Exports of Goods and Services



Source: Statistics Iceland

One of the largest foreign-financed investment projects (construction of a second aluminium smelter in Helguvik) might face further delays but several smaller projects in the aluminium and silicon-refining sectors are proceeding according to plan and are expected to contribute positively to grow this year. Domestic investment in the fisheries sector may be delayed by uncertainties related to the potential reallocation of quotas. Corporate debt restructuring is generally perceived to be moving at too slow a pace to contribute to the domestic recovery, with almost 45% of outstanding corporate loans in arrears[1]. Together with the lack of external financing availability due to the capital controls, this is a serious constraint for the recovery of domestic business investment.

Private consumption, which continued to decline in real terms last year, will probably grow only moderately this year given the still high level of unemployment (by Icelandic standards). In addition, household debt remains elevated(above 200% of disposable income as of March 2011, compared with a peak of close to 250% in 2008) despite the widespread debt restructuring on both mortgage and consumer loans in the recent past. Around 21% of total household loans are still in arrears as of March 2011.[2] On the other hand, the recently concluded wage agreement raises wages by a larger-than-expected 4.25% in 2011 (more for low-income earners), 3.5% in 2012 and 3.25% in 2013. This will provide some support to consumption, although the wage hikes will also likely contribute to a further rise in inflation.

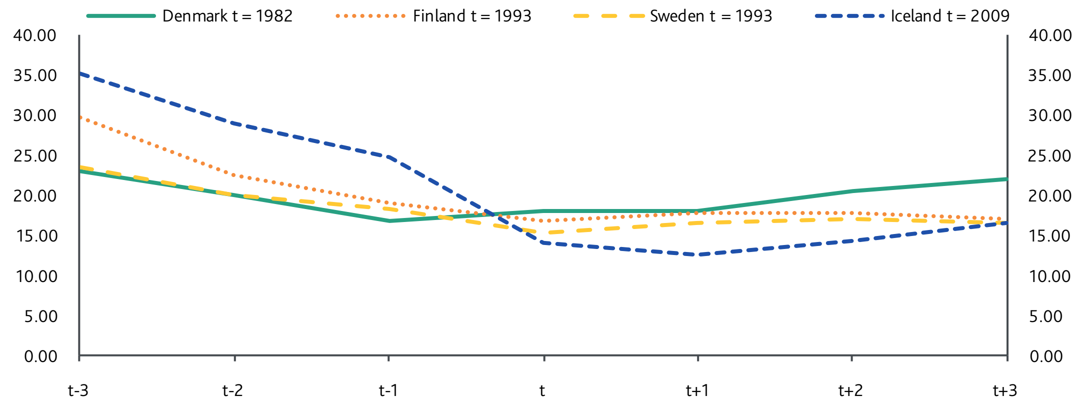
Lifting of capital controls and outlook for investment climate are key for stronger recovery

The speed with which capital controls will be relaxed will have an important bearing on the further outlook for the economy, as will the more general outlook for the investment climate in the country. Investment rates have collapsed since the crisis erupted in late 2008 and now stand at only 12.5% of GDP. This is far below the levels since the pre-boom years of around 20% of GDP and also significantly lower than what was observed in the post-crisis recovery in Scandinavian countries in the early 1990s (investment rates of around 18%).

[1] According to Icelandic rules (cross-default method), all loans by a customer are considered non-performing as soon as one loan is in arrears by 90 days or more.

[2] Same cross-default definition as for corporate loans. Household debt restructuring involved the write-down of mortgages to a maximum of 110% of collateral value, an interest rebate and an interest subsidy. Data from Central Bank of Iceland Financial Stability Report May 2011.

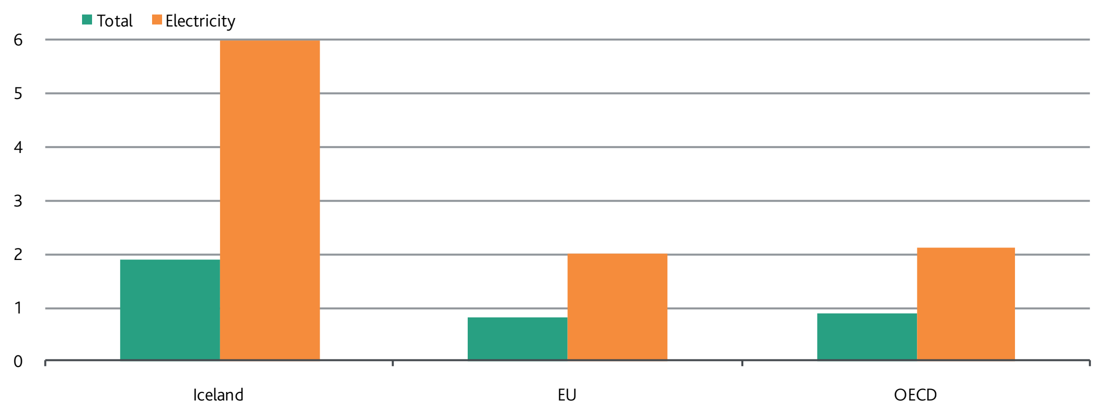
EXHIBIT 2
Post Crisis Investment (% of GDP)



Source: IMF and Moody's forecasts

The reconstituted banking system is too weak to support the recovery (credit growth continues to be negative). Foreign investment is therefore key to ensure a stronger and sustainable recovery over the medium term. Most foreign investment in Iceland is linked to the country's biggest asset, its renewable energy sources. Due to the small size of the economy, one or two large investment projects can have an important impact on growth and Iceland continues to have strong competitive advantages due to the low cost of energy and proven track record in this field. The Icelandic authorities hope to attract other investment that is less environmentally controversial and based on the country's other positive attributes like high education levels (e.g., data centres). According to the OECD, Iceland ranks among the least open member countries to FDI, particularly in the electricity production sector.[3] The Icelandic authorities are in the process of developing a long-term plan for the use of its energy resources and are also looking into ways how the state can extract a larger rent for itself and the Icelandic population from its resources.[4]

EXHIBIT 3
Barriers to FDI, Index scale of 0-6 from least to most restrictive[5]



Source: OECD Economic Surveys: Iceland, June 2011

[3] OECD Economic Survey on Iceland, June 2011.

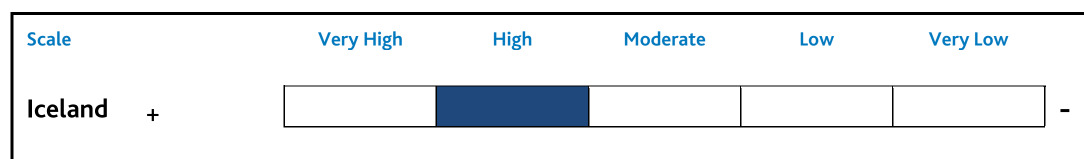
[4] See IMF: Advancing Tax Reform and the Taxation of Natural Resources, May 2011.

[5] The FDI regulation index looks only at statutory restrictions and does not assess the manner in which they are implemented.

The Icelandic authorities have recently announced a revised strategy for a gradual liberalisation of the strict capital controls in place. We consider the approach to be sensible, as it is conditions-based rather than time-based and gives the authorities sufficient flexibility to adjust the strategy depending on the evolution of the key variables: (i) the exchange rate, (ii) foreign-exchange reserves; (iii) banking sector liquidity; (iv) the outlook for macroeconomic stability; and (v) the balance of payments.[6] The first small steps have recently been taken with the government issuing its first international bond since 2006 and the central bank conducting its first two auctions of offshore ISK.[7] Given the large overhang of non-resident ISK holdings - "trapped" foreign investors hold deposits and bonds of around ISK460 billion or 30% of GDP - and their likely desire to exit the country as soon as they are able to do so, it is, however, clear that this process will take a considerable amount of time.[8]

Factor 2 – Institutional Strength: HIGH

Institutions still adapting to post-crisis environment



In our 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, partly on the basis of international surveys conducted by the World Bank and others and partly based on our own experience. A key question is whether existing institutions are conducive to the respect of contracts, in particular those that matter regarding debt payments. We use both quantitative and qualitative indicators to assess a sovereign's institutional strength.

In terms of quantitative indicators, Iceland scores very highly, although the country's relative position has worsened since the financial crisis on account of the deterioration in the macroeconomic situation. In 2009, Iceland ranked at the 93th percentile of the World Bank's indicator of "Government Effectiveness" and at the 95th percentile regarding "Rule of Law". However, Iceland is generally considered to benefit from a number of clear competitive strengths, such as the country's innovative business sector, a flexible labour market and well-developed infrastructure.[9]

Qualitatively, we note positively that the authorities have made significant progress in putting the economy and the public finances on a sounder footing, supported by the IMF. There are no concerns over the ability and willingness of the Icelandic government to honour its own financial obligations when due.[10]

Iceland has a long tradition of broad cooperation on economic matters between government, employer and employee associations. On the other hand, the "Icesave" issue in particular has raised questions about the degree of consensus on some fundamental issues, and has led to important delays in reaching

6 If accrued interest payments by the banks in winding-up process are excluded as they probably will never be paid, Iceland has been running a current account surplus since 2009.

7 In a first leg to the transactions the central bank bought ISK at the (much weaker) offshore rate from foreign investors wishing to exit. The central bank then bought an equivalent amount of foreign currency from domestic investors (at the offshore exchange rate) against payment of a 20-year inflation-indexed government bond. The domestic investors (mainly pension funds) are required to hold the bond for a minimum period of 5 years.

8 See Central Bank of Iceland website for the report on its capital account liberalization strategy, published 25 March 2011.

9 See World Economic Forum: Global Competitiveness Report 2010-11.

10 The Icelandic government has two Eurobonds maturing in December 2011 and April 2012. The total outstanding amount has been reduced through buybacks to €450 million from the original amount of €1,250 million.

a settlement.[11] Whether the Icelandic government has a liability under the EU directive on deposit-guarantee schemes will now most likely be determined by the court of the European Free Trade Association (EFTA). The legal process is expected to take at least a year.

Iceland has made solid progress in correcting the weaknesses in banking supervision that had permitted the large risks taken by Iceland's oversized banking sector and contributed to its subsequent collapse in late 2008.[12] Recapitalisation of the new banks has been completed and the minimum capital ratio has been set at a high 16% (12% for Tier 1 capital). A framework for household and corporate debt restructuring has been put in place. The Icelandic authorities are committed to bringing banking supervision in line with international best practice and to fully implement the Basel III framework. They also intend to formulate precautionary rules limiting the banks' foreign exchange risk and expansion of cross-border operations before the capital controls are fully lifted.

However, the banking sector still exhibits a number of weaknesses and the authorities acknowledge that further progress is needed to address the remaining vulnerabilities. Despite a substantial capital injection by government in late 2010, the Housing Financing Fund (HFF) continues to be a poorly capitalised institution and a large contingent liability for the government. Corporate debt restructuring has proceeded slowly and has been focused too narrowly on the extension of loan maturities. In addition, the banks' accounting methods, in particular related to the valuation of their loan book, are not harmonised and may be based on overly optimistic assumptions on asset recovery. The cooperation between the banking regulator (FME) and the central bank needs to improve further.[13]

The framework for monetary policy will also need to be adjusted before capital controls are lifted. Currently, the central bank can focus almost exclusively on achieving the inflation target (2.5%) as exchange rate volatility is limited by the capital controls. Indeed, the central bank was successful in reducing inflation significantly in the past few quarters against broad ISK stability. Recently, inflation has edged upwards again and will probably overshoot the central bank target, as the recent wage settlement feeds through to consumer prices. As capital controls are lifted, the potential volatility of the exchange rate comes into focus again and exchange rate and reserve management will probably have to be part of the monetary policy framework, as will closer coordination between monetary, fiscal and macroprudential policies. As a small open economy, the pass-through of exchange rate movements to inflation is very strong in Iceland.[14] Adoption of the euro could be beneficial in this respect and negotiations with the EU over EU accession are ongoing, but there are serious doubts as to whether the majority of the population would be in favour of joining the EU.

Municipal finance is another area where institutional changes are required and these are in the process of being implemented. In the past, the government has exerted little control and oversight over the municipalities, several of whom have encountered difficulties in refinancing their large debt burdens, including those with foreign creditors. A municipal finance bill was presented in parliament in April, but is now being delayed until September, against earlier expectations of legislative passage in June. The bill envisages strict limits on municipal borrowing (debt ceiling of 150% of revenues) and requires municipalities to present rolling three-year balanced budgets. It also allows for much stricter

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11 The revised agreement with the UK and the Netherlands was rejected by a clear majority of voters in a national referendum on 9th April 2011, despite having won broad political support in the Icelandic parliament.

12 The OECD recently quantified the cost of the banking crisis to the Icelandic taxpayer at around 20% of GDP. The largest part of these costs come from losses on loans extended by the central bank to the banks before their collapse (11.1% of GDP) plus recapitalisation of the new banks (3.8% of GDP) and HFF (2.1% of GDP). See OECD Economic Surveys Iceland, June 2011.

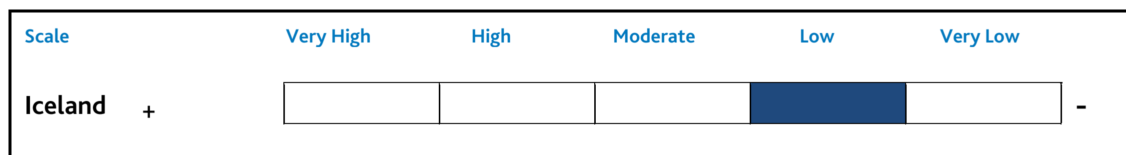
13 See Central Bank of Iceland: Financial Stability Report,

14 See OECD Economic Survey on Iceland, June 2011.

monitoring by the central government. The government is very clear that there will be no support from the central government for the debt incurred by municipalities.

Factor 3 – Government Financial Strength: LOW

On-going commitment to restrictive fiscal policy post-IMF program is key



Iceland has made important progress in bringing its public finances closer to a sustainable path, but significant further fiscal consolidation will be required in the next several years to start reducing the high debt level. The budget deficit has been cut from 8.6% of GDP in 2009 to 5.4% of GDP last year (excluding write-offs due to a called guarantee). This year, the IMF program targets an overall deficit of 3.3% of GDP and a broadly balanced primary budget position. So far, the budget is broadly on track; moreover it seems that the additional cost arising from the recent 3-year wage settlement (estimated at 1% of GDP) can be financed out of the contingency fund, which amounts to 1% of primary expenditure or ISK5 billion.

Despite these improvements, the government's financial strength is currently assessed as low, mainly based on: (i) uncertainties regarding the commitment to maintain a sufficiently restrictive fiscal policy and (ii) the very rapid increase in public debt since 2008 and the ongoing legal risks to the government's balance sheet emanating from litigation against the Emergency Law and the Icesave dispute. Both of the above issues should become clearer in the coming months, which could lead us to reassess our view on the government's financial strength.

The government intends to present its revised medium-term fiscal plan and the draft 2012 budget to parliament in September and early October respectively. A strong commitment to continuing fiscal consolidation would be positive, in particular as the government has indicated that it intends to loosen the fiscal adjustment somewhat from next year onwards compared with the targets set out in the IMF program in order to accommodate higher spending on social protection and public investment. In addition, the 2012 budget will be the first prepared after the completion of the IMF program in August 2011. There is no indication that the Icelandic authorities will enter into a successor program, which would provide some comfort regarding the fiscal policy outlook.[15]

The public debt ratio is forecast to reach 93% of GDP this year and to decline afterwards.[16] However, this forecast relies on the assumption of a quite rapid return to the substantial primary surpluses of the pre-crisis period, which based on the above, may turn out to be too optimistic. It is true that Iceland has a strong track record of maintaining primary surpluses for extended periods of time. In the period 2000-05 (prior to the boom years) Iceland managed to post primary surpluses of 3% of GDP on average. In contrast, under the IMF's assumptions, Iceland needs to achieve an average primary surplus of 7.5% of GDP during 2012-16 to meaningfully reduce the public debt level. Using the same assumptions, an average primary surplus of 3% of GDP in the coming years would merely reduce the debt ratio to 87% of GDP by 2016.

[15] The IMF will conduct its usual "post-program monitoring" until all IMF loans are repaid in 2016. Such monitoring entails two Article IV visits per year instead of the standard one visit, but the IMF's influence on policies will naturally be much more limited.

[16] The potential Icesave liability is no longer accounted for in our public debt calculations. The IMF reckons that in a baseline scenario the potential liability may amount to 6.5% of GDP, see IMF June 2011.

The downward trajectory could also be jeopardised by a negative ruling of the Supreme Court, which is expected to render a decision on the Emergency Law in cases initiated by creditors of the failed banks in the autumn. An overturning of the law, although considered unlikely, could significantly increase the government's debt burden.[17]

Barring this risk, the potential liability from Icesave for the government has been reduced substantially as the bank resolution committee now expects asset recoveries to cover 95-100% of priority deposit claims. Around half of the recoveries are estimated to be paid out to the old Landsbanki's creditors in 2011-12. Pending the legal resolution of the issue however, we consider Icesave to be a contingent liability for the government.

The substantial and liquid assets[18] that the central government holds (20.7% of GDP as of April 2011) are a mitigating factor for the high debt ratio. In net terms, Iceland's debt ratio stands at 72.7% of GDP in 2011 and is forecast to decline to below 64% of GDP by 2013, a lower ratio than most EU countries. Moreover, unlike most European countries, Iceland has very large and fully funded pension funds, bolstering the government's long-term fiscal sustainability.[19]

In addition, refinancing concerns have receded as: (i) the Nordic governments have reaffirmed their financial support despite the rejection of the Icesave agreement in April;[20] and (ii) the government has regained access to international capital markets, as evidenced by its recent international bond issue, which was sold mainly to institutional investors. We also note that the government has benefitted from cheap funding in the domestic market, as the capital controls severely restrict the investment options for domestic investors. This will likely remain the case for the foreseeable future as domestic investors are encouraged to invest in long-term Treasury bonds as part of the first phase of capital control liberalisation. Capital controls on Icelandic residents themselves are planned to be lifted only in a second stage of the process. However, the biggest domestic investors, the pension funds, are increasingly seeking investment opportunities outside of the public sector.[21]

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[17] The Emergency Law established depositors as priority claimants against the failed banks. In the case of Landsbanki and Icesave, the Law gives priority status to the Dutch and UK deposit insurance funds which can therefore expect to be paid out most if not all of their claims from the asset recoveries of the Landsbanki estate. If the Emergency Law and their priority status were to be over-turned, their expected recovery from assets would decline to approx. 30% of their claim, with the government potentially liable for the remainder.

[18] Liquid assets include currency and deposits only.

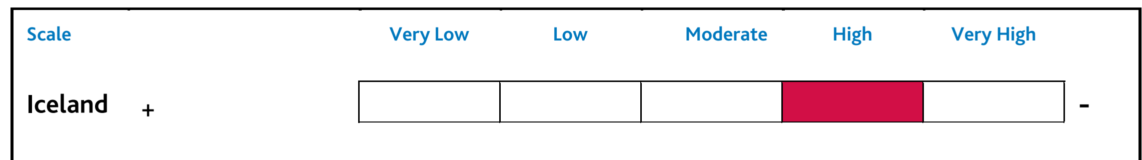
[19] Pension fund assets stand at close to ISK 2,000 billion as of April 2011, equivalent to 120% of GDP. Only civil servants pensions, amounting to approx. 20% of GDP, are unfunded.

[20] The Icelandic authorities can still draw an unused amount of $1.3 billion.

[21] E.g. several pension funds recently bought 25% of HS Orka, a private energy company.

Factor 4 – Susceptibility to Event Risk: HIGH

Overly rapid capital account liberalization probably biggest event risk



Our assessment of susceptibility to event risk was moved to high in March 2010, mainly on account of the potentially severe impact on the government debt from litigation related to the winding up of the old banks and the Icesave dispute. While not entirely gone, these risks are substantially lower now.

We will consider moving our view on susceptibility to event risk back to moderate once there is some track record of successful steps in liberalisation of the capital controls. A too rapid relaxation of capital controls constitutes the biggest event risk for Iceland, as the size of trapped holdings of foreign investors is substantial. According to central bank estimates, non-resident short-term bank deposits amount to approx. ISK164 billion (against "secure" liquid assets in foreign currencies of around ISK 200 billion).[22] Their likely exit needs to be managed carefully in order to avoid excessive exchange rate weakening. The central banks conducted stress tests on banking sector liquidity earlier this year and concluded that banks' liquidity would be severely affected if capital controls are lifted too quickly. The central bank is actively building up its foreign-exchange reserves and these are at a more comfortable level now (close to $6.1 billion on a gross basis, $2.6 billion net of pre-determined short-term drain). Still, the central bank and IMF agree that the level of foreign-exchange reserves needs to be increased further.

HFF's financial situation is a further risk and significant contingent liability for the government. The company benefits from a state guarantee for its debt, with guarantees currently amounting to ISK924 billion or 57% of GDP.[23]

Other investment-grade sovereigns with a high susceptibility to event risk are Bahrain (rated Baa1, negative outlook), Hungary (rated Baa3, negative outlook) and Cyprus (rated A2, rating under review for downgrade).

Conclusion

The combination of an upward shift in Factor 3 (government financial strength) and a downward shift in Factor 4 (susceptibility to event risk) would lead to a move in the indicative rating range to Baa2-Ba1 such that Iceland's current rating of Baa3 would no longer be outside the rating range.

[22] Central Bank of Iceland: Financial Stability Report, May 2011.

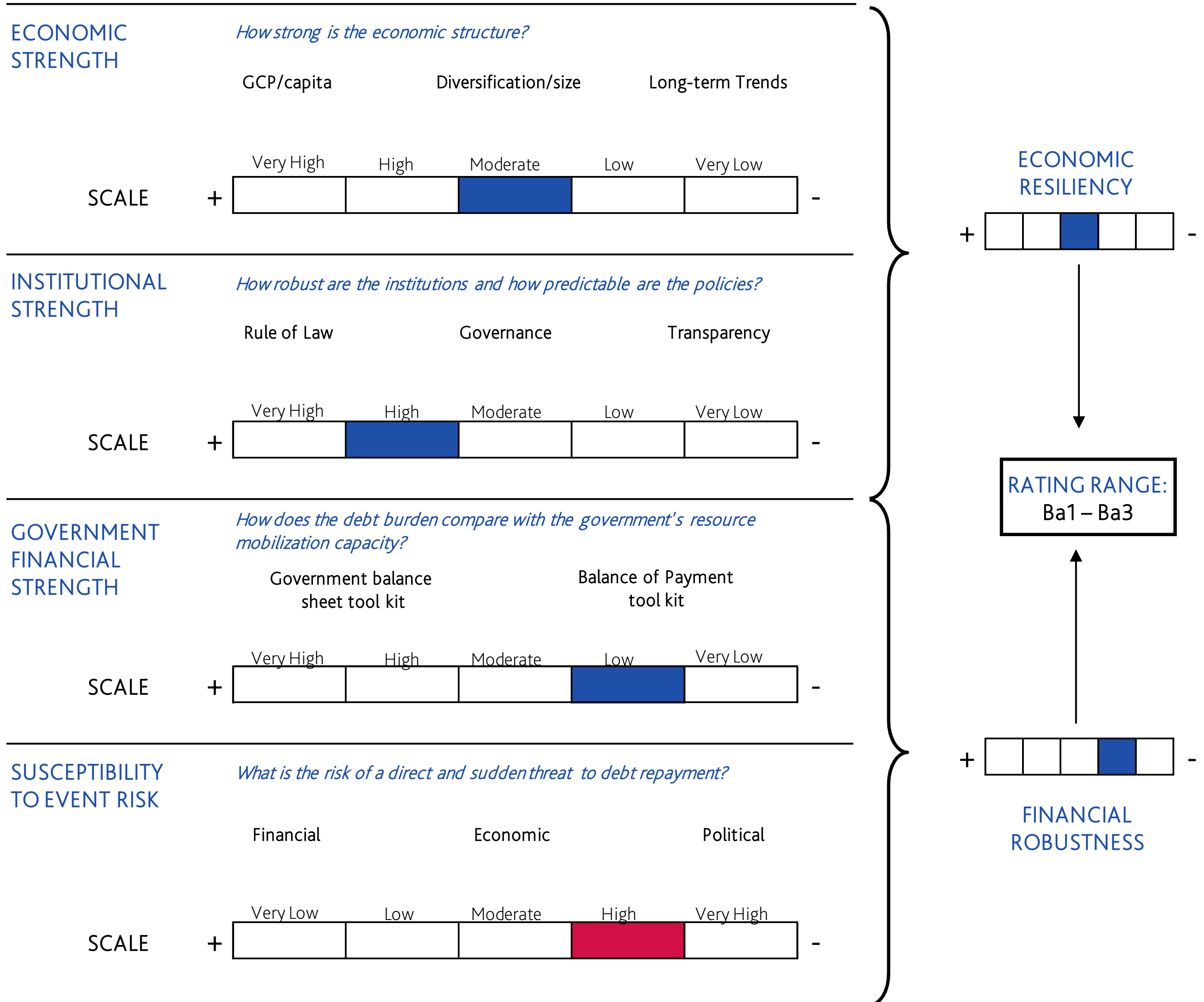
[23] Moody's rates HFF at Baa3, in line with the government's rating to reflect the explicit guarantee. The government also guarantees the debt of the state-owned energy company, Landsvirkjun, with guarantees amounting to ISK 347 billion as of April 2011. Landsvirkjun's (rated Baa3, stand-alone rating equivalent to Ba2) financial position is sounder than HFF's though.

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	--	Oct-08
Review for Downgrade	--	--	Aa1	--	Aa1	Aa1	--	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	--	--	Jun-97
Outlook Assigned	--	--	--	--	--	--	Positive	Mar-97
Rating Raised	A1	--	A1	--	A1	--	--	Jun-96
Review for Upgrade	A2	--	A2	--	A2	--	--	Apr-96
Rating Assigned	--	--	A2	P-1	--	--	--	Oct-95
Rating Assigned	--	P-1	--	--	--	--	--	Oct-90
Rating Assigned	A2	--	--	--	A2	--	--	May-89

Sovereign Mechanics[24]: Iceland



[24] Link to our Sovereign Bond Rating Methodology

Annual Statistics

Iceland

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
Economic Structure and Performance												
GDP Nominal (US$ Bil.)	7.9	8.9	11.0	13.2	16.3	16.7	20.4	16.9	12.1	12.6	13.8	14.6
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$)	27,996	31,144	38,082	45,476	55,074	55,319	66,325	53,536	37,443	38,991	42,407	44,362
GDP per capita (PPP basis, US$)	30,455	31,036	30,735	33,748	34,921	35,883	37,367	39,009	37595	--	--	--
Nominal GDP (% change, local currency)	12.9	5.8	3.0	10.4	10.5	13.8	12.0	13.3	0.8	3.0	5.5	6.0
Real GDP (% change)	3.9	0.1	2.4	7.7	7.5	4.6	6.0	1.4	-6.9	-3.5	2.2	2.8
Inflation Rate (CPI, % change, Dec/Dec)	8.6	2.0	2.7	3.9	4.1	7.0	5.9	18.1	7.5	2.5	3.3	2.5
Gross Investment/GDP	21.3	18.2	19.8	23.4	28.3	35.2	29.0	24.8	14.2	12.7	14.5	16.6
Gross Domestic Savings/GDP	20.2	19.8	16.7	17.8	16.0	17.4	18.3	22.0	22.8	23.3	24.4	25.5
Nominal Exports of G & S (% change, US$ basis)	5.3	8.5	12.8	20.0	14.5	3.9	31.8	5.6	-14.3	11.1	9.7	4.9
Nominal Imports of G & S (% change, US$ basis)	-11.1	1.2	28.2	28.4	36.2	16.3	11.1	-14.2	-32.5	7.9	11.2	7.3
Openness of the Economy[1]	78.7	73.3	71.7	73.9	75.7	82.3	80.0	91.4	97.3	102.4	103.4	104.0
Government Effectiveness[2]	--	2.03	2.12	2.10	1.98	1.89	1.75	1.56	1.61	--	--	--
Government Finance												
Gen. Gov. Revenue/GDP	41.9	41.7	42.8	44.1	47.1	48.0	47.7	44.1	41.1	42.3	40.8	42.4
Gen. Gov. Expenditure/GDP [3]	42.6	44.3	45.6	44.1	42.2	41.6	42.3	57.6	52.0	51.3	45.4	42.9
Gen. Gov. Financial Balance/GDP [3]	-0.7	-2.6	-2.8	0.0	4.9	6.3	5.4	-13.5	-10.9	-9.0	-4.6	-0.5
Gen. Gov. Primary Balance/GDP	2.7	0.4	-0.1	2.5	7.1	8.5	8.0	-10.2	-5.7	-3.9	0.6	5.5
Gen. Gov. Debt (US$ Bil.)	3.44	4.26	4.84	5.24	4.14	4.91	6.05	8.58	9.71	11.49	12.91	12.82
Gen. Gov. Debt/GDP [4]	45.9	42.1	40.8	34.5	25.4	30.1	28.6	69.8	81.1	85.8	93.4	87.9
Gen. Gov. Debt/Gen. Gov. Revenue [3]	105.3	100.4	97.9	80.5	57.6	64.0	59.6	146.3	184.0	208.9	221.0	215.3
Gen. Gov. Int. Pymt/Gen. Gov. Revenue [3]	8.0	7.2	6.4	5.5	4.7	4.5	5.4	7.6	12.7	12.1	12.7	14.2
Gen. Gov. FC & FC-Indexed Debt/GG Debt	62.3	61.0	56.1	52.0	40.8	55.6	46.5	34.4	24.8	28.4	32.8	32.8

Iceland

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
External Payments and Debt												
Nominal Exchange Rate (local currency per US$, Dec)	103.0	80.6	71.0	61.0	63.0	71.7	61.8	120.6	124.9	115.1	117.5	118.0
Real Eff. Exchange Rate (% change)	-12.5	6.2	6.3	3.1	12.4	-7.0	5.5	-21.4	-19.2	5.0	--	--
Current Account Balance (US$ Bil.) [5]	-0.34	0.14	-0.52	-1.30	-2.63	-3.97	-3.21	-4.13	-1.41	-1.23	0.32	0.28
Current Account Balance/GDP	-4.3	1.5	-4.8	-9.8	-16.1	-23.8	-15.7	-24.5	-11.6	-9.7	2.3	1.9
External Debt (US$ Bil.)	9.1	11.0	16.2	26.5	46.4	72.2	123.8	95.2	32.4	36.5	33.3	31.7
Public Sector External Debt/Total External Debt	24	24	17	10	3.7	3.8	2.4	9.2	10.5	21.0	28.4	28.1
Short-term External Debt/Total External Debt	18.1	22.4	22.1	18.7	15.9	16.9	34.3	14.5	15.3	37.0	24.8	17.9
External Debt/GDP	120.8	108.4	136.3	174.1	284.5	433.5	605.9	564.7	267.9	289.9	240.8	217.0
External Debt/CA Receipts [6]	294.4	263.6	360.7	462.2	704.3	910.1	1,075.8	1,113.2	511.6	543.5	391.6	344.3
Interest Paid on External Debt (US$ Bil.)	0.35	0.26	0.30	0.39	0.82	2.46	5.34	7.67	3.71	1.00	1.57	1.96
Amortization Paid on External Debt (US$ Bil.)	1.2	1.5	2.1	2.6	3.7	5.1	16.8	9.1	1.8	3.2	4.6	4.3
Net Foreign Direct Investment/GDP	-2.2	-2.7	-0.4	-13.9	-24.6	-10.2	-16.5	30.4	-18.2	38.8	6.5	6.2
Official Foreign Exchange Reserves (US$ Bil.)	0.3	0.4	0.8	1.0	1.0	2.3	2.5	3.5	3.6	5.6	6.2	5.2
Net Foreign Assets of Domestic Banks (US$ Bil.)	-2.2	-2.2	-1.5	-0.8	3.2	9.1	-24.3	-0.8	-0.2	0.7	--	--
Monetary, Vulnerability and Liquidity Indicators												
M2 (% change Dec/Dec)	15	15	18	15	23	20	56.5	32.0	-1.1	-10.0	--	--
Monetary Policy Interest rate (% per annum, Dec 31)	10.1	5.8	5.3	8.3	10.5	14.3	13.8	18.0	10.0	4.5	--	--
Domestic Credit (% change Dec/Dec)	16	10	28	39	63	43	8.9	-35.8	-8.6	-1.0	--	--
Domestic Credit/GDP	101	105	130	164	242	305	296.3	167.7	152.1	146.3	--	--
M2/Official Forex Reserves (X)	11	12	9	9	10	5	7.8	3.9	3.5	2.3	--	--
Total External Debt/Official Forex Reserves	2879	2649	2112	2605	4596	3175	4856	2732	890	657	537	609
Debt Service Ratio [7]	47	49	57	60	68	96	192	196	87	63	73	68
External Vulnerability Indicator [8]	910	971	746	753	1104	763	2274	427	187	207	165	156
Liquidity Ratio [9]	462	322	164	95	111	75	163	238	317	270	--	--
Total Liab. due BIS Banks/Total Assets Held in BIS Banks	1146	776	466	359	315	207	306	409	539	365	--	--

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] Excluding principal and interest transactions related to old banks obligations from 2009 onwards

[6] Current Account Receipts

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

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

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

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» Sovereign Methodology Update. Narrowing the Gap – a Clarification of Moody's Approach to Local Vs. Foreign Currency Government Bond Ratings. February 2010 (118820)

Statistical Handbook:

» Iceland, Government of

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