

FITCH DOWNGRADES ICELAND TO 'BB+'/'BBB+'; OUTLOOK NEGATIVE

Fitch Ratings-London-05 January 2010: Fitch Ratings has today downgraded Iceland's Long-term foreign and local currency Issuer Default Ratings (IDRs) to 'BB+' and 'BBB+' from 'BBB-' and 'A-' respectively. The Outlooks on both Long-term ratings are Negative. Fitch has simultaneously downgraded Iceland's Short-term foreign currency IDR to 'B' from 'F3' and downgraded the Country Ceiling to 'BB+' from 'BBB-'.

"Today's decision by Iceland's President to refer the 'Icesave' agreement to a referendum creates a renewed wave of domestic political, economic and financial uncertainty. It also represents a significant setback to Iceland's efforts to restore normal financial relations with the rest of the world," says Paul Rawkins, Senior Director in Fitch's Sovereigns team in London.

The agreement was approved by the Icelandic parliament on 30 December 2009.

"Consequently, in Fitch's opinion, Iceland's economic and sovereign credit profile is no longer consistent with an investment grade foreign currency rating," adds Rawkins.

Fitch has consistently maintained that the resolution of the 'Icesave issue', a bilateral agreement with the UK and Dutch governments to finance the compensation of 'Icesave' depositors, is an essential element towards the restoration of sovereign creditworthiness.

This latest setback raises renewed uncertainties over the availability of bilateral and multilateral funding for Iceland's IMF financial rescue programme. Moreover, it threatens to further stifle progress towards liberalising capital controls that continue to trap significant non-resident investments in Icelandic krona and also the establishment of a credible market-determined exchange rate regime necessary to restore the economy's access to international capital over the medium-term.

The Negative Outlook continues to reflect ongoing uncertainty over the resolution of the 'Icesave' issue, the potential for an intensification of Iceland's international financial isolation and the risk that the current economic stabilisation and recovery programme will stall.

Applicable criteria available on Fitch's website at www.fitchratings.com: 'Sovereign Rating Methodology', dated October 16, 2009.

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