



# NEWS RELEASE

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## R&I Retains Republic of Iceland on Rating Monitor v/downgrading

Rating and Investment Information, Inc. (R&I) has announced the following:

**ISSUER:** Republic of Iceland  
Foreign Currency Issuer Rating

**R&I RATING: (BBB-); Remains on the Rating Monitor with a view to downgrading**

### **RATIONALE:**

On January 5, Olafur Ragnar Grimsson, president of Iceland, refused to sign a bill promising to reimburse the U.K. and the Netherlands for the loans they extended to Iceland's deposit insurance entity, and announced that he would hold a referendum on the bill in two months. When a major Icelandic bank collapsed in September 2008 and depositors lost access to their savings, the governments of the U.K. and the Netherlands extended the loans so that Iceland's deposit insurance entity could repay to British and Dutch depositors. The legislation is designed to guarantee loan repayments by the deposit insurance entity to the British and Dutch governments. If the bill becomes effective, the debt of Iceland's government will effectively increase by US\$5 billion. This is equivalent to a per capita burden of approximately US\$15,000 as the country's population is 330,000.

On October 9, 2008, R&I downgraded the Foreign Currency Issuer Rating for Iceland to BBB- and placed it on the Rating Monitor with a view to downgrading, because the financial system in the country had been severely hit by the Lehman shock and the real economy had begun to rapidly deteriorate. Subsequently, the government introduced a program to stabilize its economy primarily formed by the International Monetary Fund (IMF) and won commitments from IMF, the Nordic nations, Poland and other countries to extend loans of more than US\$4.6 billion. Only part of the loans has been disbursed, however, because of the issue of loan repayments to the British and Dutch governments.

The education level of Icelanders is high, and the country is blessed with natural resources. Although the income level fell, it is still maintained at a high level. As such, basic elements supporting the sovereign creditworthiness have been unchanged. Nevertheless, if people vote for the bill in the referendum, the huge debt is expected to burden Iceland's economic recovery in the future. On the other hand, if the bill is voted down, financial assistance will be put off and fund raising in the overseas capital market will most likely be hampered as well. Because the government has little external debt that must be repaid by the end of 2010, Iceland is unlikely to have a liquidity problem in the immediate future. That said, if the government fails to raise funds smoothly for a protracted period of time, there is a concern that the country's economy will collapse. The economy is projected to contract in 2010 as well and the unemployment rate will likely approach 10%. As such, economic fundamentals continue to deteriorate. R&I will follow the outcome of the referendum and the future stance of IMF and supporting countries and also examine how economic fundamentals develop going forward. The result will be incorporated into the rating. R&I has thus retained the Foreign Currency Issuer Rating for Iceland on the Rating Monitor.

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The primary rating methodology applied to this rating is provided at "R&I's Analytical Approach to Sovereigns". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/rating/rating/methodology.html>

**R&I RATINGS:**

**ISSUER: Republic of Iceland**

**FOREIGN CURRENCY ISSUER RATING:(BBB-); Remains on the Rating Monitor  
with a view to downgrading**

In principle, an Issuer Rating is R&I's opinion on an issuer's overall capacity to repay its financial obligations as agreed and is assigned to all issuers. The rating of individual obligations includes the prospect of recovery and reflects the terms and conditions of the agreement and it may be lower or higher than the Issuer Rating.

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