Moody's
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Rating Action: **ICELAND'S RATINGS OUTLOOK REMAINS STABLE IN FACE OF GROWING EXTERNAL DEBT BURDEN**

Global Credit Research - 07 Feb 2001

New York, February 07, 2001 -- In its annual country report, Moody's explains that the outlook for Iceland's Aa3/Aaa foreign and domestic currency is stable. The outlook reflects the significant improvement in the public sector debt position as well as the government's ongoing commitment to policies that have wrought strong economic growth, monetary stability, and a dramatic rise in living standards during recent years. Comprehensive structural reforms undertaken in the past decade have included fiscal consolidation, financial and product market deregulation, enhanced diversification of the productive and export base, refinement of fisheries management, and a more liberal attitude toward foreign direct investment.

Moody's warns, however, that Iceland's rapid growth has engendered serious macro imbalances that could threaten the country's hard-won economic stability going forward. The slowdown now underway represents a difficult challenge for economic policymakers, given already very tight monetary and moderately restrictive fiscal policies but still-large external deficits. The heavy reliance on foreign credit by the banks and private sector businesses has become more onerous after last year's roughly 10% depreciation, raising concerns for these firms' profitability should the currency come under further pressure in the coming months and years.

In spite of these concerns, Moody's emphasizes that the Icelandic government's capacity to pay the foreign debt is consistent with its Aa3 foreign currency rating at present. Its access to foreign exchange liquidity from commercial banks and other Nordic countries is plentiful and its willingness to pay domestic and external obligations is unquestioned. For these reasons, although we are worried about the external position and the possibility of a balance of payments and/or currency event, the outlook for the country ceilings is stable.

Moody's stated that the issuance of this publication is an annual update to the markets and should not be confused with a formal rating action altering the credit rating of the issuer.

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