

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.

* * *

NOTE TO JOURNALISTS: For more information, please contact New York Press Information +1-212-553-0376; London Press Information +44-20-7772-5454; David Frohriep in Paris +33-1-5330-1062; Juan Pablo Soriano in Madrid +34-91-310-1454; Michael Buneman in Milan +39-0286-337-470; Anita Poppi in Sydney +612-9270-8100; Juergen Berblinger in Frankfurt +49-69-707-30-700; Hideaki Hoshina in Tokyo +813-3593-0734; Hilary Parkes in Toronto +1-416-214-1635; Lorraine Yee in Hong Kong +852-2916-1112; Christiana Aguiar in SÆo Paulo +55-11-3043-7186; or Benito Solis in Mexico City +525-261-8784.

WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.