

# Credit Analysis

# Moody's Global Sovereign

January 2009

## Iceland

Iceland	Foreign Currency	Local Currency
Government Bond Rating	Baa1-Negative	Baa1-Negative
Country Ceiling	A2-Negative	Aaa
Bank Deposit Ceiling	Baa1-Negative	A1

*Moody's sovereign rating list*

## Summary and Outlook

Iceland's current financial and economic crisis is unprecedented in scope for any advanced industrial country relative to the size of the economy. The events of the last few months have taken an economy that was one of the richest in the world to the brink with the collapse of its banking system and currency.

Moody's has downgraded the Icelandic government's ratings twice during the crisis period, initially to A1 from Aa1 on 8 October, and then to Baa1 on 4 December as the full cost of the crisis became apparent to the government. At Baa1, the Republic of Iceland remains an "investment-grade" government.

Despite the government's enormous debt burden, Moody's still considers Iceland to be investment grade due to its medium level of economic strength and very strong institutions. Wealth – a key measure of the government's ability to raise revenue to service its debt – will diminish over the next few of years, but is expected to remain relatively high by international standards. Iceland's institutional assets – a high degree of social consensus, flexible labour market and well educated population – should support the economic adjustment.

As of the time of publication, Iceland's currency has stabilised with the aid of strict capital controls and some support from the central bank. However, a negative outlook remains in place because the economic outlook remains uncertain and could quickly change.

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This Credit Analysis provides an in-depth discussion of credit rating(s) for China and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. [Click here to link.](#)



**Moody's Investors Service**

## Iceland

## Economic strength damaged, but not beyond repair

### Factor 1 – Economic Strength: Moderate

SCALE		Very High	High	Moderate	Low	Very Low	
ICELAND							
	+						-

The major determinants of a country's economic strength in Moody's sovereign bond rating methodology are wealth and the scale of the economy. Iceland's economic strength is appraised at medium, primarily due to the scale of the economy. The economy is small by both global and European standards: nominal GDP in 2007 (pre-crisis) was around US\$20 billion (advanced industrial country median of US\$400 billion) and similar in size to Cyprus, Bahrain and Estonia. The economy is also relatively concentrated, with approximately three-quarters of goods exports composed of fish or aluminum<sup>1</sup>. Such a high degree of concentration leaves the economy exposed to idiosyncratic shocks, such as problems with the fishing stock or in the global aluminium industry.<sup>2</sup>

Moody's recently reduced its assessment of Iceland's economic strength because of the impact of the crisis on the country's economic model and wealth. Prior to the crisis, Iceland ranked amongst the most wealthy countries in the world, with GDP per capita in purchasing power parity (PPP) terms at about the same level as Austria, Canada and Switzerland<sup>3</sup>. Using market exchange rates, GDP per capita was USD64,500 in 2007, one of the highest in the world. GDP per capita is expected to decline by a cumulative 15% in PPP terms by 2010 and by over 40% using market exchange rates. Despite this significant decline, GDP per capita in PPP terms will likely be around 85-90% of the advanced industrial country average, still a relatively high level in global terms.

The rapid economic growth in Iceland during 2004-07 was driven by a narrow group of industries, specifically banking, construction and property. All three industries have been affected by the crisis and will shrink dramatically in 2009-10. The three largest banks were put into moratorium administration during the crisis and placed under the control of the financial regulators. Three new banks have since been created out of the domestic (Icelandic) assets of the old banks, but their activities will be much more limited than the old banks. The property boom peaked in early 2008 and prices and transactions are now declining. The construction industry will be hit hard by the collapse of the property market. Two new aluminum projects also look vulnerable due to the sharp fall in global aluminum prices. Unemployment is forecast to rise to over 10% in 2009 from less than 1% in early 2008.

Nevertheless, as Iceland is a relatively open economy, the contraction in total GDP will be much less than the contraction in domestic demand. Most of the decline in consumption and investment will come from lower imports. The major producers (who export most of their products) should escape the worst of the crisis. Some exporters may even benefit from the depreciated currency, although many have foreign currency denominated loans that are now much more expensive to service.

The domestic economy is expected to remain anaemic for several years. The rise in unemployment and spike in inflation from the currency depreciation will restrain private consumption and investment. Moreover, credit grew very quickly during the boom years and many households and companies borrowed money in foreign currency. It will take time for people and companies to rebuild their balance sheets.

<sup>1</sup> Tourism exports have also grown quickly in recent years, accounting for about 9% of exports in 2007.

<sup>2</sup> The cost of producing aluminum in Iceland is very low due to the prevalence of cheap electricity from hydroelectric and geo-thermal plants. Therefore, Iceland's smelters would be among the last in the world to shut down due to low aluminium prices.

<sup>3</sup> Source: World Bank. 2006 most recent data.

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The economy should begin to recover in 2010, driven by external demand. Moody's projects that the current account deficit, which was about 16% of GDP in 2007, could move to a small surplus in 2009. In the short-term, most of the adjustment will take place on the import side as the two largest exports (fish and aluminium) are not especially sensitive to the exchange rate. This also means that the exact timing and strength of the recovery will be dictated more by the situation in the global economy than by domestic circumstances.

Moody's expects wealth to gradually increase over the long term. The economy has demonstrated a relatively high degree of dynamism and flexibility in the past, qualities that will be necessary for wealth to return to its previous upward trajectory. Iceland has significant untapped geothermal and hydropower resources that could be monetised through a variety of different methods. If the after-effects of the crisis are weighing too heavily on the economy and growth is not accelerating, the government could authorise the construction of additional power plants and associated end-using facilities (e.g. aluminium smelters, data centres).<sup>4</sup>

## Quality institutions struggle in a severe environment

### Factor 2 – Institutional Strength: Very High

SCALE		Very High	High	Moderate	Low	Very Low	
ICELAND							
	+						-

Iceland's institutional strength is assessed at very high, with an informal downward shading to the high category. International surveys of governance have ranked Iceland as having some of the best institutions in the world. For example, the World Bank Institute's Government Effectiveness and Rule of Law indices<sup>5</sup> placed Iceland in the top 98<sup>th</sup> and 99<sup>th</sup> percentile, respectively. Iceland also performed strongly in such diverse surveys as Transparency International's Global Perceptions Index and the World Economic Forum's Global Competitiveness Index.<sup>6</sup>

The downward shading to the high category – changed in the wake of the crisis – indicates Moody's view that institutional strength is slightly weaker than most other countries assessed in the very high category. In particular, there is a perception that stronger and more decisive actions by the Icelandic authorities in the lead-up to and during the crisis could have mitigated its impact. Iceland's small population (approximately 300,000) may leave the country's institutions at a relative disadvantage as the authorities are essentially forced to run an entire country with the population of a small city. In such circumstances, there is almost certainly going to be a lack of resources and depth in some areas of the administration, especially during a major crisis.

Confidence in bank regulation and monetary policy suffered greatly in the crisis and it will take time to rebuild trust in the banks and the currency. It is uncertain if the previous monetary regime – inflation-targeting with a floating exchange rate – could be successfully re-introduced once the economy has stabilised. On the other hand, the high degree of openness and widespread indexation of mortgage payments to inflation meant that the previous regime did not function well prior to the crisis either: inflation has been consistently above the 2.5% target rate for over four years (since mid-2004).

EU membership is now becoming more likely. There is a growing sense within the country that the crisis could have been avoided if Iceland had joined the European Union and used the euro as its official currency instead of the krona. Iceland's central bank and currency were simply too small to support and protect the inflated banking sector in a crisis situation. Some key political leaders that had long been opposed to EU membership

<sup>4</sup> There are currently plans in the works to build a new large aluminium smelter than would begin operating in 2011.

<sup>5</sup> The indices are statistical compilations of a large number of international surveys.

<sup>6</sup> It is notable that such surveys are often highly correlated with past performance. Therefore, Iceland's standing will probably slip in future, post-crisis surveys.

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– particularly the prime minister – appear to be more open towards such a step than before. Public opinion has swung strongly in favour of EU membership.

In a more volatile and hostile global economy, EU membership and euro adoption are perceived by some groups to offer international protection and support that Iceland has lacked since the end of the Cold War.<sup>7</sup> The fishing industry, which has long opposed EU membership because it would entail relinquishing some control over its prized fishing grounds, has also lost influence as the economy has diversified. The EU commissioner for enlargement, Olli Rehn, has claimed that negotiations on EU accession could take less than one year because Iceland has already adopted a large proportion of EU legislation. If domestic political obstacles can be overcome, this would allow Iceland to join the EU as early as 2012.

The labour market is an important institutional strength. The participation rate is over 80%, one of the highest in the world, and people often work past the official retirement age of 67. The labour force is generally young, well educated and flexible. As large numbers of people will need to find jobs in completely new industries, such adaptability should facilitate the economic adjustment and prevent the unemployment rate from persisting at very high rates.

On the other hand, the widespread unemployment and destruction of wealth that occurred over the past few months are an unusual amount of disruption by Icelandic standards. At present, it is too early to determine the long-term social effects of the crisis, but the country's high level of social accord – another institutional strength – seems to have been slightly damaged by the crisis.

## Colossal debt burden should gradually decline to a more manageable level

### Factor 3 – Government Financial Strength: Low

SCALE		Very High	High	Moderate	Low	Very Low	
ICELAND							
	+						-

In November 2008, the government adopted an IMF stand-by arrangement (SBA) to stabilise the currency and economy. The SBA is focused on three objectives: (1) stabilising the currency, (2) rebuilding a sound, well-functioning banking sector, and (3) restoring medium-term fiscal sustainability. The total amount of the SBA is SDR1.4 billion (around US\$2.1 billion), of which 40% has already been paid. The remainder will be paid in eight equal quarterly instalments over 2009-10. The Icelandic government is also negotiating bilateral supplementary loans to bolster the IMF programme. It is expected that about US\$3-3.5 billion could be made available, most of which would come from the Nordic countries, with the remainder coming from Russia and Poland.

The government's financial strength has been severely weakened by the banking and currency crisis. Moody's now evaluates the government's financial strength at low, owing to the colossal debt burden and weak fiscal

	2009
Domestic debt	15.7%
Eurobonds	20.4%
IMF borrowing	12.4%
Bilateral borrowing	23.6%
Icesave guarantees	46.1%
Re-capitalisation CBI	22.5%
Re-capitalisation banking system	4.6%
<b>Total gross gov. debt/GDP</b>	<b>145.3%</b>

Source: Moody's estimates. Includes all gov. and most gov. guaranteed debt

<sup>7</sup> During the Cold War, Iceland was a critical member of NATO.

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metrics. Government revenues are projected to decline by 16% in nominal terms in 2009 due to the sharp recession. Meanwhile, expenditures should rise slightly as social transfers increase. The IMF programme required the government to remove the budget's previous fiscal stimulus so the 2009 budget will be neutral in economic terms.<sup>8</sup> Still, the budget deficit is forecast at almost 13% of GDP. The government plans to begin to tighten fiscal policy in 2010, with stronger measures in 2011-12 as the economic recovery gathers steam. A primary surplus of 2.5-3.0% of GDP is targeted by 2013 (versus a primary deficit of approximately 7.0% of GDP in 2009), which will allow debt to gradually decline to more manageable levels.

The government's debt ratios, previously on a downward trend during 1995-2007, will increase significantly over the next two years. There are five reasons for the increase: (1) the large currency depreciation increased the value of the government's foreign currency denominated Eurobonds in local currency terms; (2) the government will run large budget deficits for several years, financed through the issuance of domestic bonds; (3) IMF and bilateral loans to support the currency and balance of payments; (4) the Icelandic government was forced to guarantee the re-payment of approximately €4 billion (45% of GDP) of internet deposits in the now insolvent Landsbanki to British and Icelandic depositors; and (5) the government needs to re-capitalise the Central Bank of Iceland (CBI)<sup>9</sup> and the new Icelandic banks that were created from the old banks. The government plans to issue new bonds on 'market terms' to the CBI and new banks will perform the recapitalisation.

Gross government debt/GDP is forecast to peak at about 146% in 2010, a six-fold increase from the end-2007 value. In terms of GDP, this would make Iceland the second most highly indebted country in Moody's rating universe, surpassed only by Japan at 201% (rated Aa3 in local currency), and slightly ahead of Lebanon at 146% (B3). There are only four other governments in Moody's rated universe with gross government debt/GDP ratios above 80%: Belgium (rated Aa1), Greece (A1), Italy (Aa2) and Jamaica (B1).

The picture improves, however, when gross debt is measured in terms of revenues: Iceland's gross debt/revenue ratio will be approximately 340% in 2010, compared to 650% in Japan and 618% in Lebanon. There are a number of governments with debt/revenue in the 300-400% range, although most are rated between B1 and B3 as they also have much lower economic and institutional strength than Iceland.

Iceland's net debt ratios are expected to remain below 100% of GDP, declining to about 53% in 2012 (net debt excludes government debt issued to the CBI and the new banks, and a proportion of the IMF/bilateral borrowings and Icesave-related debt). Moody's believes that, in Iceland's case, net debt provides a more accurate picture of the government's true financial strength as the government will hold assets against much of the new debt.<sup>10</sup> Moreover, most of the new debt will be non-market – owed to either official lenders or captive institutions – with flexible maturities. Market debt maturing in the next few years is modest.

Debt affordability is assessed at low, given the outsized debt ratios. The IMF, bilateral and Icesave loans will likely carry low interest rates that should ensure that the burden is manageable. Even so, gross government interest payments are forecast to reach 15.5% of government revenue in 2009 and could be even higher in 2010. This compares to a median government interest payments/revenues ratio of about 5% in advanced industrialized countries and 7% for the Baa-rated countries. Other countries with a similarly high interest payments/revenues ratio include Barbados (rated Baa2), Mauritius (Baa2), Brazil (Ba1), and Fiji Islands (Ba2); Brazil, Fiji Islands and Mauritius all have lower institutional strength than Iceland, suggesting less policy transparency and policy predictability.

Iceland is also different from many of the other highly indebted countries in that it has a strong track record of debt reduction.<sup>11</sup> Moody's central scenario is for the economic and financial situation to stabilise, allowing the government to pay off the IMF, bilateral loans and Icesave loans. This could reduce gross debt/GDP to approximately 80-90% in 2012, which should be sustainable for a wealthy country such as Iceland. Moody's is

<sup>8</sup> Any revenue over-performance should be saved.

<sup>9</sup> The CBI took bank bonds in repo transactions with the three banks prior to their default. The banks' insolvency created a large hole in the CBI's balance sheet, requiring a recapitalisation.

<sup>10</sup> Although those assets will be of varying degrees of liquidity.

<sup>11</sup> Gross debt/GDP declined to under 30% in 2007 from almost 60% in 1995, and about half that level in net terms.

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also cognizant that many highly-rated governments will see their debt ratios rise significantly over the next three to four years due to the effects of the global credit crunch, reducing the gap with peers.

Moody's central scenario						
	2007	2008	2009	2010	2011	2012
Gross government debt/GDP	28.1%	134.7%	145.3%	146.4%	134.5%	124.4%
Net government debt/GDP	15.0%	91.9%	93.6%	77.7%	63.5%	52.4%

Moody's downside scenario						
	2007	2008	2009	2010	2011	2012
Gross government debt/GDP	28.1%	134.7%	165.5%	176.8%	161.8%	148.1%
Net government debt/GDP	15.0%	91.9%	100.6%	89.3%	77.2%	67.3%

Source: Moody's estimates. Includes all government and most gov. guaranteed debt. Net debt excludes government debt issued to the CBI and new banks, and a variable proportion of the IMF/bilateral borrowings and Icesave related debt.

Nonetheless, there remains a real risk that Moody's central scenario will not pan out. The economic outlook for 2009 and beyond is subject to a high degree of uncertainty, and is largely dependent upon the evolution of the world economy. If elements of the global credit crunch persist into 2010, it may be difficult for Iceland to quickly withdraw from the IMF programme. It would also be difficult to re-pay the guaranteed Icesave loans and realise value from the new banks. In such a scenario, government gross debt/GDP would remain much higher for longer, although net debt would still decline to about 67% of GDP.

## Stabilising the currency and economy are critical for long-term success

### Factor 4 – Susceptibility to Event Risk: Moderate

SCALE		Very Low	Low	Moderate	High	Very High	
ICELAND							
	+						-

Moody's believes that Iceland is currently susceptible to a moderate level of event risk. Although the acute phase of the banking and currency crisis has passed, there is still some risk related to the stabilisation of the currency and economic recovery. There is an estimated €4 billion in 'hot money' currently invested in Iceland. The money – previously invested in high-yielding ISK denominated assets – was trapped when the Icelandic financial markets froze in early October, and could seek to exit the country at the earliest possible opportunity, leading to significant further depreciation.

The Icelandic authorities have taken measures to counter-act these threats to financial and economic stability, including raising interest rates, borrowing from the IMF and other governments to support the currency in the currency market, and instituting strict, wide-ranging capital controls in early December. The measures have contributed to a stabilisation of the krona since the re-opening of the currency market in early December. Moody's expects that the continuation of capital controls, high interest rates and limited exchange rate intervention should ensure that the currency remains stable in the short term.

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There are some limits to the effectiveness of these measures, however, especially given the ongoing global credit crunch, which has significantly reduced investors' appetite for risk. A weak world economy would also complicate the plan as it would likely dent confidence in Iceland's medium-term recovery prospects.

Moody's central scenario is that sufficient confidence in the currency will return to permit a gradual reduction in interest rates and removal of capital controls. This would establish a virtuous circle, whereby the improving economic situation would increase confidence, allowing the currency controls and interest rates to be reduced, supporting a broader economic recovery. On the other hand, a persistent lack of confidence could maintain the currency at a weak level and prevent the virtuous circle from gaining traction. In such a scenario, Moody's believes that the authorities would further increase controls on the currency, raise interest rates and fiscally retrench to tighten macroeconomic policy. Such a plan would probably be successful eventually, but would increase the cost of the crisis significantly above the current estimates.

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## Sovereign Rating Mechanics<sup>12</sup>

### ECONOMIC STRENGTH

*How strong is the economic structure?*

GDP/capita      Diversification/size      Long-term trends

Very high      High      Moderate      Low      Very Low



### INSTITUTIONAL STRENGTH

*How robust are the institutions and how predictable are the policies?*

Rule of law      Governance      Transparency

Very high      High      Moderate      Low      Very Low



### GOVERNMENT FINANCIAL STRENGTH

*How does the debt burden compare with the government's resource mobilization capacity?*

Government balance sheet tool kit      Balance of payment tool kit

Very high      High      Moderate      Low      Very Low



### SUSCEPTIBILITY TO EVENT RISK

*What is the risk of a direct and sudden threat to debt repayment?*

Financial      Economic      Political

Very low      Low      Moderate      High      Very high



### ECONOMIC RESILIENCY



**RATING RANGE: A2-Baa1**

### FINANCIAL ROBUSTNESS



<sup>12</sup> Link to our Sovereign Bond Rating Methodology

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## Rating History

Iceland								
	Foreign Currency Ceilings				Government Bonds		Outlook	Date
	Bonds & Notes		Bank Deposit		Foreign Currency	Local Currency		
	Long-term	Short-term	Long-term	Short-term				
Rating Lowered	A2	P-2	Baa1	P-2	Baa1	Baa1	Negative	December-08
Rating Lowered & Review for Downgrade	Aa1	--	A1	--	A1	A1	--	October-08
Review for Downgrade	--	--	Aa1	--	Aa1	Aa1	--	September-08
Rating Lowered	--	--	Aa1	--	Aa1	Aa1	Stable	May-08
Outlook Changed	--	--	Aaa	--	Aaa	Aaa	Negative	March-08
Rating Raised	Aaa	--	Aaa	--	Aaa	--	Stable	October-02
Rating Assigned	--	--	--	--	--	Aaa	--	July-97
Rating Raised	Aa3	--	Aa3	--	Aa3	--	Stable	July-97
Review for Upgrade	A1	--	A1	--	A1	--	--	June-97
Outlook Assigned	--	--	--	--	--	--	Positive	March-97
Rating Raised	A1	--	A1	--	A1	--	--	June-96
Review for Upgrade	A2	--	A2	--	A2	--	--	April-96
Rating Assigned	--	--	A2	P-1	--	--	--	October-95
Rating Assigned	--	P-1	--	--	--	--	--	October-90
Rating Assigned	A2	--	--	--	A2	--	--	May-89

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## Annual Statistics

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	2003	2004	2005	2006	2007	2008F	2009F	2010F
<b>Economic Structure and Performance</b>								
GDP Nominal (US\$ Bil.)	11.0	13.2	16.3	16.6	20.2	16.2	11.5	13.3
Population (Mil.)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
GDP per capita (US\$)	37,879	45,305	54,917	55,140	64,500	51,113	36,162	41,439
GDP per capita (PPP basis, US\$)	29,751	32,638	35,465	36,923	--	--	--	--
Nominal GDP (% change, local currency)	3.0	10.4	10.5	13.8	10.7	10.0	0.0	2.0
Real GDP (% change)	2.4	7.7	7.4	4.4	4.9	0.5	-9.3	-0.3
Inflation Rate (CPI, % change, Dec/Dec)	2.2	3.2	4.0	6.8	5.9	18.1	7.2	1.5
Gross Investment/GDP	19.8	23.4	28.3	34.8	28.1	22.0	18.8	19.0
Gross Domestic Savings/GDP	16.7	17.8	15.9	16.9	17.6	22.5	29.0	27.0
Nominal Exports of G & S (% change, US\$ basis)	12.8	20.0	14.1	3.5	32.3	9.6	14.3	20.2
Nominal Imports of G & S (% change, US\$ basis)	28.2	28.4	36.4	16.0	10.3	-20.0	-15.0	2.1
Openness of the Economy[1]	71.7	73.9	75.6	82.0	80.4	74.8	71.3	71.5
Government Effectiveness[2]	2.26	2.23	2.22	2.11	2.07	--	--	--
<b>Government Finance</b>								
Gen. Gov. Revenue/GDP	42.8	44.1	47.1	48.0	47.8	43.0	35.9	43.0
Gen. Gov. Expenditures/GDP	45.6	44.1	42.2	41.7	42.6	46.0	48.5	53.6
Gen. Gov. Financial Balance/GDP	-2.8	0.0	4.9	6.3	5.2	-3.0	-12.6	-10.6
Gen. Gov. Primary Balance/GDP	-0.1	2.5	7.1	8.5	7.4	1.0	-7.0	-4.2
Gen Gov Debt (US\$ Bils.)	4.8	5.2	4.1	4.9	5.9	8.3	9.2	11.5
Gen. Gov. Direct Debt/GDP	40.8	34.5	25.4	30.1	28.1	70.9	75.0	80.7
Gen. Gov. Debt/Gen. Gov. Revenues	95.4	78.2	53.9	62.8	58.8	164.8	208.8	187.7
Gen. Gov. Interest Payments/Revenues	6.4	5.5	4.7	4.5	4.7	9.3	15.5	15.0
Gen. Gov. FX and FX-linked Debt/Total	56.1	52.0	40.8	55.6	46.5	43.4	43.0	35.7
Gen. Gov. Guaranteed Debt (US\$ Bil.)	--	--	--	--	--	7.5	8.6	9.4
Gen. Gov. Direct Debt Owed to Private Creditors/Gen. Gov. Direct Debt	100.0	100.0	100.0	100.0	100.0	27.0	25.0	29.0
Total Gen. Gov. Direct & Guaranteed Debt (US\$ Bil.)	4.84	5.24	4.14	4.91	5.87	15.85	17.77	20.91
Total Gen. Gov. Direct & Guaranteed Debt/GDP	40.8	34.5	25.4	30.1	28.1	134.7	145.3	146.4
Total Gen. Gov. Direct & Guaranteed Debt/Gen. Gov. Revenue	95.4	78.2	53.9	62.8	58.8	313.2	404.7	340.5

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	2003	2004	2005	2006	2007	2008F	2009F	2010F
<b>External Payments and Debt</b>								
Nominal Exchange Rate (local currency per us\$, Dec)	71.0	61.0	63.0	71.7	61.9	120.9	116.3	101.6
REER (% change)	6.3	2.8	12.7	-6.7	5.6	--	--	--
Current Account Balance (US\$ Bil.)	-0.53	-1.32	-2.64	-4.23	-3.19	-2.63	0.08	0.56
Current Account Balance/GDP	-4.9	-9.9	-16.2	-25.4	-15.8	-16.3	0.7	4.2
External Debt (US\$ Bil.)	16.5	27.2	46.6	72.7	115.3	25.5	26.4	30.2
Public Sector External Debt/Total External Debt	18.8	12.8	5.3	4.7	3.4	17.1	17.0	16.9
Short-term External Debt/Total External Debt	22.1	18.7	15.9	16.8	35.7	20.0	25.7	24.8
External Debt/GDP	139.6	179.1	285.7	445.9	551.5	216.4	216.2	211.7
External Debt/CA Receipts	368.8	474.0	704.0	938.6	923.4	291.2	232.0	256.8
Interest Paid on External Debt (US\$ Bil.)	0.3	0.4	0.8	1.8	3.0	1.9	1.2	1.4
Amortization Paid on External Debt (US\$ Bil.)	2.1	2.6	3.7	4.7	16.6	3.9	3.7	3.6
Net Foreign Direct Investment/GDP	-0.4	-13.8	-24.5	-7.8	-45.0	-4.3	2.6	10.5
Official Foreign Exchange Reserves (US\$ Bil.)	0.76	1.02	1.01	2.27	2.55	3.47	4.70	5.50
Net Foreign Assets of Domestic Banks (US\$ Bil) [3]	-1.45	-0.80	3.21	9.08	-23.39	-23.52	--	--
<b>Monetary, Vulnerability and Liquidity Indicators</b>								
M2 (% change Dec/Dec) [3]	22.4	13.5	29.3	60.1	8.5	22.2	--	--
Short-term Nominal Interest Rate (% per annum, Dec 31) [3]	7.7	10.3	12.0	15.3	15.3	16.5	--	--
Domestic Credit (% change Dec/Dec) [3]	28.2	39.3	62.8	43.1	8.9	51.7	--	--
Domestic Credit/GDP	130.3	164.4	242.3	304.8	299.8	--	--	--
M2/Official Forex Reserves (X)	8.9	8.8	11.1	7.0	7.8	--	--	--
Total External Debt/Official Forex Reserves	2,164.4	2,678.6	4,614.8	3,196.6	4,523.2	734.1	562.7	549.7
Debt Service Ratio [4]	56.5	59.4	67.9	81.6	162.3	48.3	46.0	45.6
External Vulnerability Indicator [5]	746.4	753.0	1,103.8	742.3	2,267.2	258.3	224.1	201.6
Liquidity Ratio [6] [7]	163.8	95.1	111.3	75.3	162.4	163.8	--	--
Total Liab. due BIS Banks/Total Assets Held in BIS Banks [7]	466.1	359.4	314.1	207.1	306.2	273.6	--	--

**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] 2008 as of September

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

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

[6] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks

[7] 2008 as of June

## Iceland

## Moody's Related Research

### Banking System Outlook:

- Iceland, March 2008 (106019)

### Special Comments:

- A Guide to Moody's Sovereign Ratings, July 2006 (98177)
- A Quantitative Model for Local Currency Government Bond Ratings, September 2003 (79404)
- A Quantitative Model for Foreign Currency Government Bond Ratings, February 2004 (81176)

### Rating Methodologies:

- Sovereign Bond Ratings, September 2008 (109490)
- Piercing the Country Ceiling: An Update, January 2005 (91215)
- Revised Foreign-Currency Ceilings to Better Reflect Reduced Risk of a Payments Moratorium in Wake of Government Default, May 2006 (97555)

### Other Related Research:

- Iceland Credit Opinion, December 2008

## Related Websites

### Ministry of Finance/Treasury:

- [www.ministryoffinance.is](http://www.ministryoffinance.is)

### Central Bank:

- [www.sedlabanki.is](http://www.sedlabanki.is)

### Country Statistics:

- [www.statice.is](http://www.statice.is)

*To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.*

## Iceland

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