MOODY'S INVESTORS SERVICE

CREDIT ANALYSIS

Iceland

Table of Contents:

Analyst Contacts:

LONDON 44.20.7772.5454

Kenneth Orchard 4420.7772.5560
Vice President - Senior Credit Officer
Kenneth.Orchard@moodys.com

Pierre Cailleteau 4420.7772.8735
Team Managing Director
Pierre.Cailleteau@moodys.com

NEW YORK 1.212.553.1653

Kristin Lindow 212.553.3896
Senior Vice President
Kristin.Lindow@moodys.com

Summary and Outlook

	FOREIGN CURRENCY	LOCAL CURRENCY
Government Bond Rating	Baa3-Stable	Baa3- Stable
Country Ceiling	Baa2- Stable	Aa3
Bank Deposit Ceiling	Baa3- Stable	A1

Moody's sovereign rating lists

Iceland's economy has stabilized somewhat following the massive banking and currency crisis, but significant fiscal tightening and weak investment will cause the recession to linger through 2010. The recovery is also threatened by the lack of resolution of the Icesave dispute, which delayed the resumption of financial flows into the country. New investment in the aluminium and power sectors should support a gradual recovery towards the end of 2010, but economic growth is expected to remain tepid for at least several years.

The government's enormous debt burden – a legacy of the crisis – poses serious challenges for economic policymakers. Iceland's debt affordability metrics are among the worst of any investment grade sovereign. However, a significant tightening of fiscal policy is expected to gradually move the budget into surplus and reduce the debt to a more manageable level. Returning economic growth to a sustainable trajectory will be crucial for ensuring the long term sustainability of public finances.

Moody's deems Iceland to be susceptible to a "medium" level of event risk. While there are no immediate payment concerns, stalled negotiations over reimbursing the British and Dutch governments for their citizens' deposits in a failed Icelandic bank – the so-called Icesave scheme – could complicate the government's ability to refinance its 2011 and 2012 eurobonds in the international capital markets. However, due to the recent resumption of IMF and Nordic financing, the central bank is projected to have ample resources to repay the issues when they mature if refinancing is not forthcoming. Another potential risk is that the eventual removal of capital controls could cause some volatility, given the large stock of foreign assets trapped in the country.

The stable outlook on Iceland's rating balances the fragile economic stabilisation and gradually improving fiscal situation against modest external vulnerabilities stemming from the ongoing Icesave dispute and the planned removal of capital controls. There is also some legal risk due to outstanding lawsuits challenging the emergency banking legislation passed during the crisis.

A weak economic recovery

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 methodology are its population's average wealth and the scale of the economy. Iceland's economic strength is appraised at moderate, based on the combination of high wealth and limited scale. The economy is small by both global and European standards: nominal GDP in 2009 was around US$12 billion[1], versus the sovereign investment grade median of US$210 billion, and similar in size to Malta (rated A1/stable), Mauritius (Baa2/stable) and Botswana (A2/negative). The economy is also highly concentrated, with approximately three-quarters of goods exports composed of fish or aluminum[2]. Such a high degree of concentration leaves the economy exposed to idiosyncratic shocks, such as problems with the more valuable catches among the fishing stock or fluctuations in prices and demand in the global aluminium industry.[3]

Iceland's relative wealth declined significantly during the crisis. GDP per capita (PPP terms) for 2009 is estimated at around US$30,000, down approximately 15% from the 2007 level[4], due to the economic crisis. Moody's expects that GDP per capita will decline by at least another 5% in 2010, in line with the expected real economic contraction. Despite the decline, however, Iceland is still amongst the more wealthy countries in the world. GDP per capita ranks Iceland around the 80th percentile in Moody's rating universe, about the same level as Germany (Aaa), Italy (Aa2/stable) and Japan (Aa2/stable), and above the investment grade median[5].

A more shallow but longer recession

Although Iceland experienced a difficult recession in 2009, the economy performed better than was expected immediately after the crisis. The export sector – namely fishing and aluminium, but also tourism – held up well during the global recession. This was partly due to the steep decline in the real effective exchange rate, which boosted competitiveness, but also due to Iceland's strong structural position in its major industries. The country's wealth and flexible labour market also absorbed some of the shock. Private consumption was supported by withdrawals from individual pension accounts and debt restructuring schemes. Unemployment has risen to 9%, a high level by Icelandic standards, but not significantly above the pre-crisis average of most European countries.

2010, however, is forecast to be another difficult year for Iceland. Higher taxes and expenditures cuts, implemented as part of the government's fiscal consolidation, are likely to weigh on consumption and

1 Down from US$20 billion in 2007.
2 Tourism exports have also grown quickly in recent years, accounting for about 11% of exports in 2008.
3 However, this risk is mitigated by the fact that the cost of producing aluminum in Iceland is relatively low due to the prevalence of cheap electricity from hydroelectric and geo-thermal plants. Iceland's smelters are unlikely to be threatened by low aluminium prices.
4 GDP per capita is down about 45% at market exchange rates.
5 About US$26,000 in PPP terms.

confidence[6]. Business and household investment has declined precipitously. Most of the industries that propelled the economy during the boom, such as construction and financial services, are expected to remain stagnant for some time. Aluminium and fishing are currently operating near capacity.

New investment in the aluminium and electricity sectors was expected to mitigate the contraction in 2010 and lead the recovery in 2011-12. There are currently two new major aluminium projects in the early stages that could, given the small size of Iceland, have a material impact on economic growth. However, as the projects require the construction of additional electricity generation capacity, they have been delayed by financing constraints faced by Iceland's major utilities companies, Landsvirkjun and Reykjavik Energy. Both companies have a weak credit standalone credit profile[7] and have struggled to raise sufficient funding for the new investment. Moody's is optimistic that, now that the IMF programme is functioning again, the companies will be more successful.

A gradual economic recovery

The economic recovery beginning in 2011 is projected to be gradual. It could take five years before output returns to its previous peak in real terms. Government plans to continue tightening fiscal policy in 2011-2013 will create "fiscal drag" on economic growth, and the rise in unemployment and spike in inflation have damaged confidence and purchasing power. Moreover, the credit boom and currency crisis left many households and companies with weak balance sheets. The effort to restore financial health will likely cause consumption and investment to be weak for some time.

As a small, open economy, the strength of the recovery will primarily be dictated by the situation in the global economy. Stronger growth in foreign demand, particularly in Europe, would pull Iceland's economy up more quickly. Iceland also has significant untapped geothermal and hydropower resources that could be monetised through a variety of means if its citizens are willing. If the after-effects of the crisis are weighing too heavily on the economy and growth is not accelerating, the government could promote the construction of additional power plants and associated end-using facilities (e.g. aluminium smelters, data centres).

Institutions in a state of flux

Factor 2 – Institutional Strength: High

SCALE		Very High	High	Moderate	Low	Very Low	
ICELAND	+						-

Iceland's institutional strength is assessed at high. International surveys of governance have ranked Iceland as having some of the stronger institutions in the world. For example, the World Bank Institute's Government Effectiveness and Rule of Law indices placed Iceland around the 85th and 97th percentiles respectively in Moody's rating universe[8]. Iceland also performs well in such diverse surveys

6 Recent data on consumption and confidence show that they have recovered from the lows of mid-2009 but still remain very weak.
7 Moody's baseline credit assessment for Landsvirkjun is B2 (stable outlook) and for Reykjavik Energy is B3 (negative outlook).
8 The indices are statistical compilations of a large number of international surveys. 2008 data.

as Transparency International's Global Perceptions Index and the World Economic Forum's Global Competitiveness Index.[9]

Iceland has a tradition of broad cooperation on economic matters, and in this spirit the various levels of government, employer and employee associations signed a "stability pact" in June 2009, which set out specific targets and actions for the various signatories to stabilise the economy over the next few years. The pact allowed the government to undertake significant fiscal tightening in mid-2009 and 2010 that would have caused serious social unrest in many other countries.

However, the boom and crisis seem to have created schisms in Icelandic society that are complicating the official response to the crisis. The Icesave[10] issue, in particular, has raised serious questions about the degree of consensus on some fundamental issues, and this has contributed to the delay in reaching a settlement. The recently published official report on the crisis also documented a raft of institutional failures that contributed to the financial crisis.[11]

Possible EU accession is in the early stages. The European Commission recommended starting membership negotiations in February 2010, and this is expected to be approved by the EU's 27 member governments. The Commission has claimed that negotiations could take as little as 18-24 months because Iceland has already adoption a large portion of EU legislation[12]. Moody's believes that this is an ambitious target but is feasible.

However, it remains highly uncertain if Iceland will join the EU once negotiations are complete. The government coalition partners have agreed that EU membership must be put to a referendum, and opinion polls have shown a sharp decrease in support for EU membership over the past year. There is a strong perception in Iceland that the EU has not been supportive of Iceland post-crisis, especially on the Icesave dispute. There is a large political bloc against EU membership, catering to the fiercely independent component of Icelandic society. Furthermore, the fishing industry has long opposed EU membership because it may entail relinquishing some control over its prized fishing grounds[13].

Confidence in financial stability 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 since mid-2004. A clear path towards euro adoption would probably support confidence in the currency and smooth the normalisation of the currency regime, but this is only possible if Iceland is on-track to become a member of the European Union (EU).

[9] 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.

[10] The Icesave dispute with the British and Dutch governments stems from the collapse of the Icelandic bank Landsbanki in October 2008. Landsbanki operated an internet deposit scheme in the UK and Netherlands and, when the bank collapsed, deposit insurance was paid out to British and Dutch depositors by their respective governments. Under EU/EEA rules, however, the Icelandic deposit scheme was ultimately liable for the insured amount. Although the Icelandic deposit insurance scheme was a private sector entity, the British and Dutch governments have demanded that the Icelandic government assume the liability. The three governments initiated negotiations on the terms of the re-payment in early 2009 but have been unable to reach an agreement that was also acceptable to the Icelandic public. It is worth noting that the Icelandic government does not dispute re-payment of the claim – even though there are legitimate questions about the legality of the claim – it is the terms of the loan agreement that are being negotiated.

[11] Refer to full investigative report at http://sic.althingi.is/

[12] Due to its membership in the European Economic Area (EEA).

[13] This been a major obstacle to EU membership in the past, although the fishing industry has lost influence in recent years as the economy diversified.

Debt burden will pose serious challenges

Factor 3 – Government Financial Strength: Low

SCALE		Very High	High	Moderate	Low	Very Low	
ICELAND	+				■		-

The government's financial strength, which Moody's classifies as "low," has been severely weakened by the banking and currency crisis. The large debt burden and large budget deficit will pose serious challenges for the government for the foreseeable future.

IMF Programme

In November 2008, the government adopted an IMF stand-by arrangement (SBA) to stabilise the currency and economy. The total amount of the SBA is SDR1.4 billion (around US$2.1 billion), of which almost 50% has already been paid. An additional €1.8 billion was pledged by the Nordic governments.

The programme was delayed in 2009, and again in early 2010, due to several complications. In particular, the UK and Netherlands blocked disbursement of the Nordic loans, and therefore progress on the IMF programme, pending resolution of the Icesave dispute. The programme resumed in April 2010, with the full support of the Nordic countries, under the condition that Iceland honours the Icesave obligation.

The government tightened the budget in mid-2009 as the deficit was deteriorating more quickly than planned. Government revenues declined by 3% in nominal terms in 2009 (10.4% real). Expenditures declined by 9% in nominal terms despite much higher interest costs and social security outlays. In the end, the deficit turned out to be much lower than expectations.

The government plans to continue fiscal tightening in 2010, with stronger measures in 2011-12 as the economic recovery gathers steam. A primary surplus of 6.4% of GDP is targeted by 2013 (versus a primary deficit of approximately 2.3% of GDP in 2009), which would allow debt to quickly decline to more manageable levels. Moody's sees some implementation risk for what is a very ambitious programme, but so far the government has stuck to the plan. Unlike some other highly indebted countries, Iceland has a past track record of debt reduction and strong backing from social partners. [14]

The government's debt ratios have increased significantly since prior to the crisis (see charts). The primary reasons for the increase in debt are the re-capitalisation of the central bank[15] and commercial banks (which cost approximately 23% of GDP), large budget deficits, and loans to boost official foreign exchange reserves. The central bank and commercial banks were capitalised with government bonds, and the budget deficit is being financed in the local capital markets. We expect that the Icesave dispute will eventually be resolved, which adds approximately €4 billion (45% of GDP) to the gross government debt from its reimbursement of deposits in the former Landsbanki held by British and Dutch depositors[16].

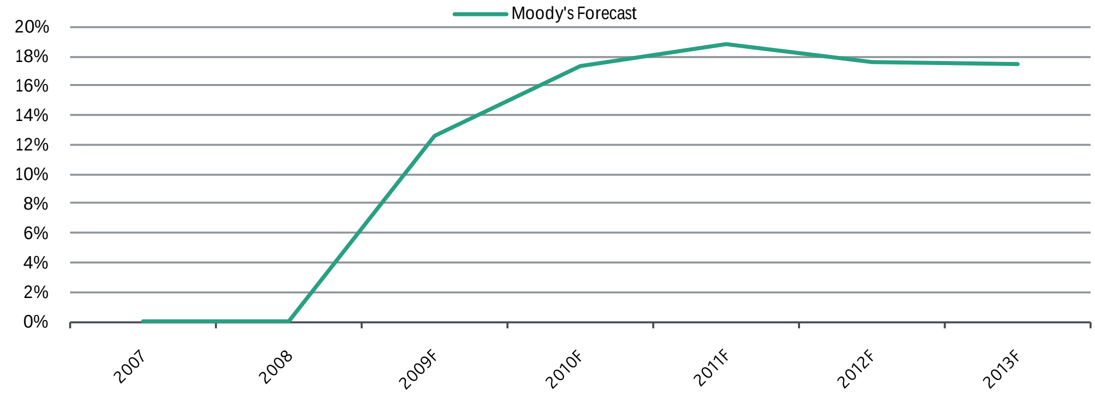
14 Gross debt/GDP declined to under 30% in 2007 from almost 60% in 1995, and about half that level in net terms.

15 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.

16 It is likely that assets recovered from the former Landsbanki can be used to reduce this debt significantly. Including the recovery of such assets, the estimated net present value of the Icesave debt is 'only' 8% of GDP. However, there is some litigation risk to this scenario. See discussion under Factor 4 below.

In Moody's baseline scenario, gross government debt/GDP is forecast to peak at about 160% in 2011, declining to around 140% of GDP by 2013[17]. In terms of GDP, this would temporarily make Iceland one of the most highly indebted countries in Moody's rating universe, surpassed only by Japan at 200% (rated Aa2/stable), and on par with Lebanon at 150% (B1/stable). The picture improves slightly, however, when gross debt is measured in terms of revenues: Iceland's gross debt/revenue ratio will be approximately 388% in 2010, around the same level as India (Baa3/stable), and well below the 750% in Japan and 525% in Lebanon.

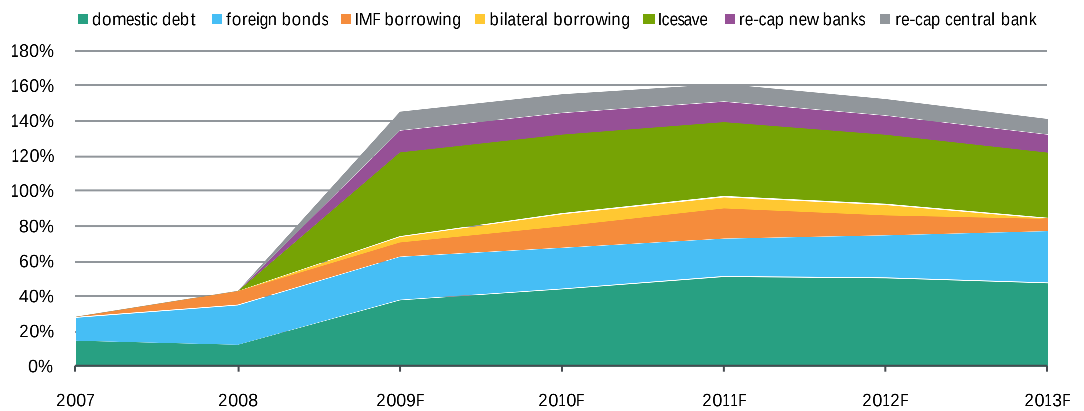
FIGURE 1
Interest Payments/Revenues



Source: Moody´s.

Debt affordability has also deteriorated significantly since late-2008. Despite the fact that the official loans carry low interest rates, net government interest payments are forecast to be around 18% of government revenues in 2010, and remain above 15% for several more years (see chart above). This compares unfavourably to the Baa-rating category median ratio of 9%. Other countries with similarly high interest payments/revenues ratios include Barbados (rated Baa3/stable), India (Baa3/stable), Brazil (Baa3/positive), Egypt (Ba1/stable) and Turkey (Ba2/stable).

FIGURE 2
Gross Government Debt as % of GDP - baseline scenario



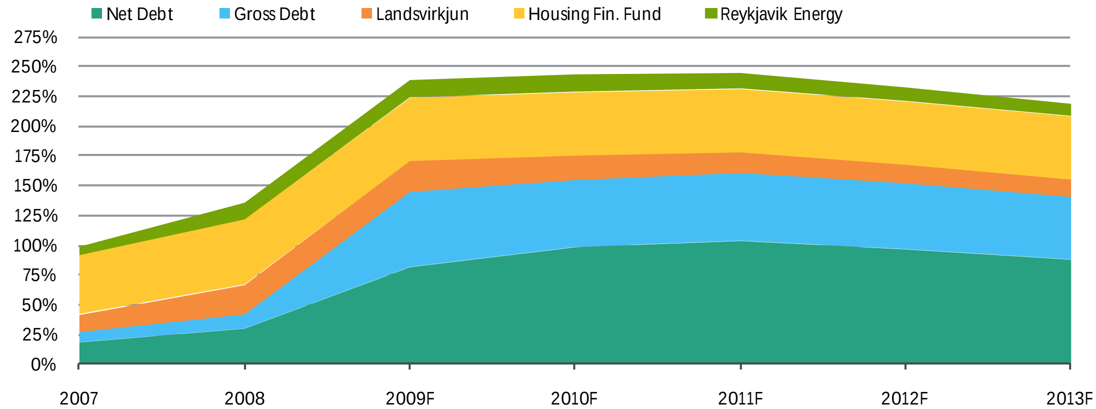
Source: Moody´s. Note: Icesave figures include the full obligation to the British and Dutch governments and do not reflect the probability that recovered assets from the former Landsbanki could be used to reduce the debt more quickly.

17 Note that Moody's debt ratios are higher than those published by the government and IMF as Moody's figures include IMF loans and the full Icesave obligation in gross rather than net terms, i.e. Moody's figures do not account for the probability that the Icesave obligation could be reduced more quickly using assets recovered from the former Lanksbanki.

The Icelandic government also guarantees[18] the debt of three full or partly state-owned companies: the Housing Financing Fund (HFF), Landsvirkjun and Reykjavik Energy (RE). All three companies have weak financial profiles following the crisis[19]; HFF is significantly exposed to the housing market, where prices and demand have dropped steeply, and Landsvirkjun and RE have significant foreign exchange-denominated liabilities. The combined total of the three entities' debt is equivalent to about 85% of GDP, but the companies also have income-producing assets. Moody's estimates that the government's maximum exposure to the companies in a reasonable worst case scenario is approximately 25% of GDP.

FIGURE 3

Icelandic Government Debt + Guaranteed Debt as % of GDP



Source: Moody´s. Note Gross Debt figures include full Icesave liability as per above chart.

Government debt is expected to remain manageable

Moody's believes that, in Iceland's case, net debt provides a more accurate picture of the government's true financial strength than does gross debt, since the government will hold assets against some of the new debt.[20] Iceland's net debt ratios are forecast to peak around 105% of GDP in 2011, declining to about 90% in 2013[21] (see chart below), which should be a manageable burden for a wealthy economy such as Iceland. Much of the new debt will be non-market – owed to either official lenders or captive institutions – with flexible maturities. Moreover, unlike most European countries, Iceland has very large fully-funded pension funds, bolstering the government's long-term fiscal sustainability.

The government has two eurobonds with a face value of €1.25 billion maturing in late 2011 and early 2012, and Moody's sees some risk that the government will not be able to re-finance these in the international capital markets if the Icesave dispute remains unresolved. Still, the total funds available from the IMF and Nordic governments over the next 18 months are significantly larger than scheduled debt re-payments. The central bank also already re-purchased 9.2% of the outstanding stock of the bonds (by nominal value) in the secondary market in Q1-2010.

Uncertainty lingers

There is still a material degree of uncertainty regarding Moody's baseline scenario, which is conditional upon continued progress on fiscal consolidation, a satisfactory resolution of the Icesave dispute and a

18 HFF and Landsvirkjun have explicit government guarantees. Reykjavik Energy's debt is guaranteed by the City of Reykjavik but – given the size of the debt relative to the City's resources – Moody's treats the Icelandic government is the *de facto* guarantor.

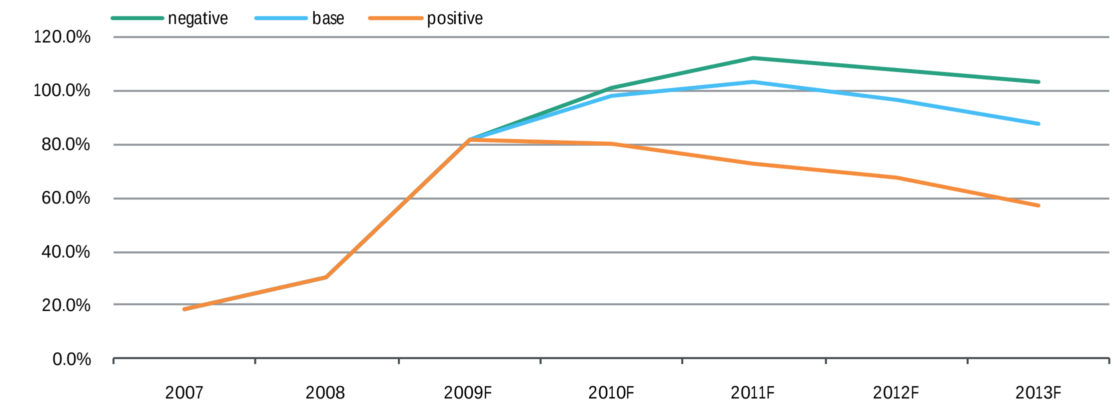
19 Moody's has baseline credit assessment (standalone) ratings on the three entities as follows: Landsvirkjun B2; RE B3; HFF B1-B3.

20 Although these assets will be of varying degrees of liquidity.

21 Net debt excludes government debt issued to the CBI and the new banks, a portion of the IMF/bilateral borrowings and Icesave-related debt.

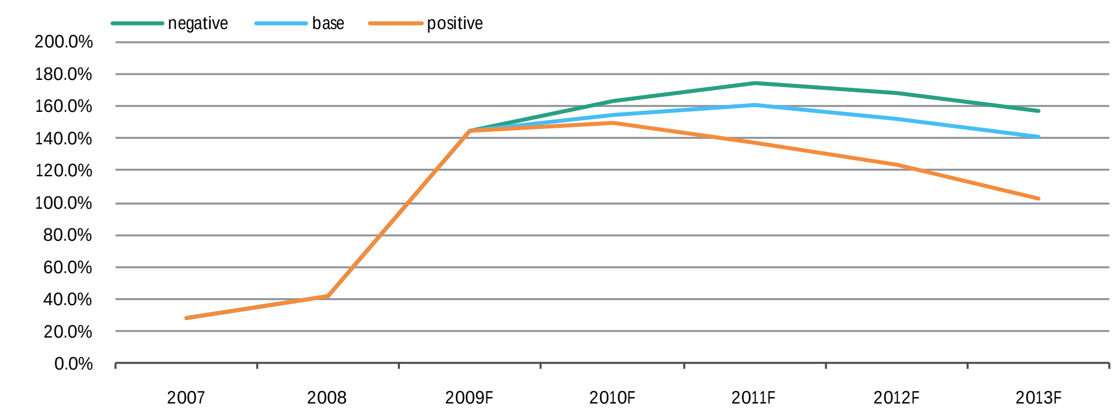
recovery of the world economy. If one or more of these fail to materialise, it is likely that debt would peak higher and then decline more slowly than in our baseline forecast. Alternatively, if fiscal consolidation is more rapid than planned and the external environment more supportive of growth, debt/GDP would decline more quickly (see scenarios in charts below).

FIGURE 4
Net Debt Projections



Source: Moody´s.

FIGURE 5
Gross Debt Projections



Source: Moody´s. Note baseline Icesave figures do not reflect the possibility that recovered assets from the former Landsbanki could be used to reduce the debt more quickly.

Some uncertainties remain

Factor 4 – Susceptibility to Event Risk: Moderate

SCALE		Very Low	Low	Moderate	High	Very High	
ICELAND	+						-

In Moody's opinion, Iceland is susceptible to a moderate level of event risk. The three major sources of concern are related to the Icesave dispute, normalisation of the currency regime and litigation risk.

Icesave dispute. Moody's base case scenario is that Icesave talks will resume following elections in the UK and Netherlands (early and late May 2010), with an agreement signed before the end of 2010. It remains in all parties' interest to resolve the dispute as soon as possible, as a stronger Icelandic economy would support faster re-payments to the UK and Netherlands. Iceland's economic recovery would probably be very weak without fresh foreign investment, and the government would also struggle to normalize its international standing without an agreement on Icesave.

However, this was also the case through 2009 and early 2010, and an agreement still remains elusive. Some political groupings in Iceland are strongly against a new Icesave agreement unless on terms that are very favourable to Iceland i.e. terms that are not acceptable to the UK and Netherlands.

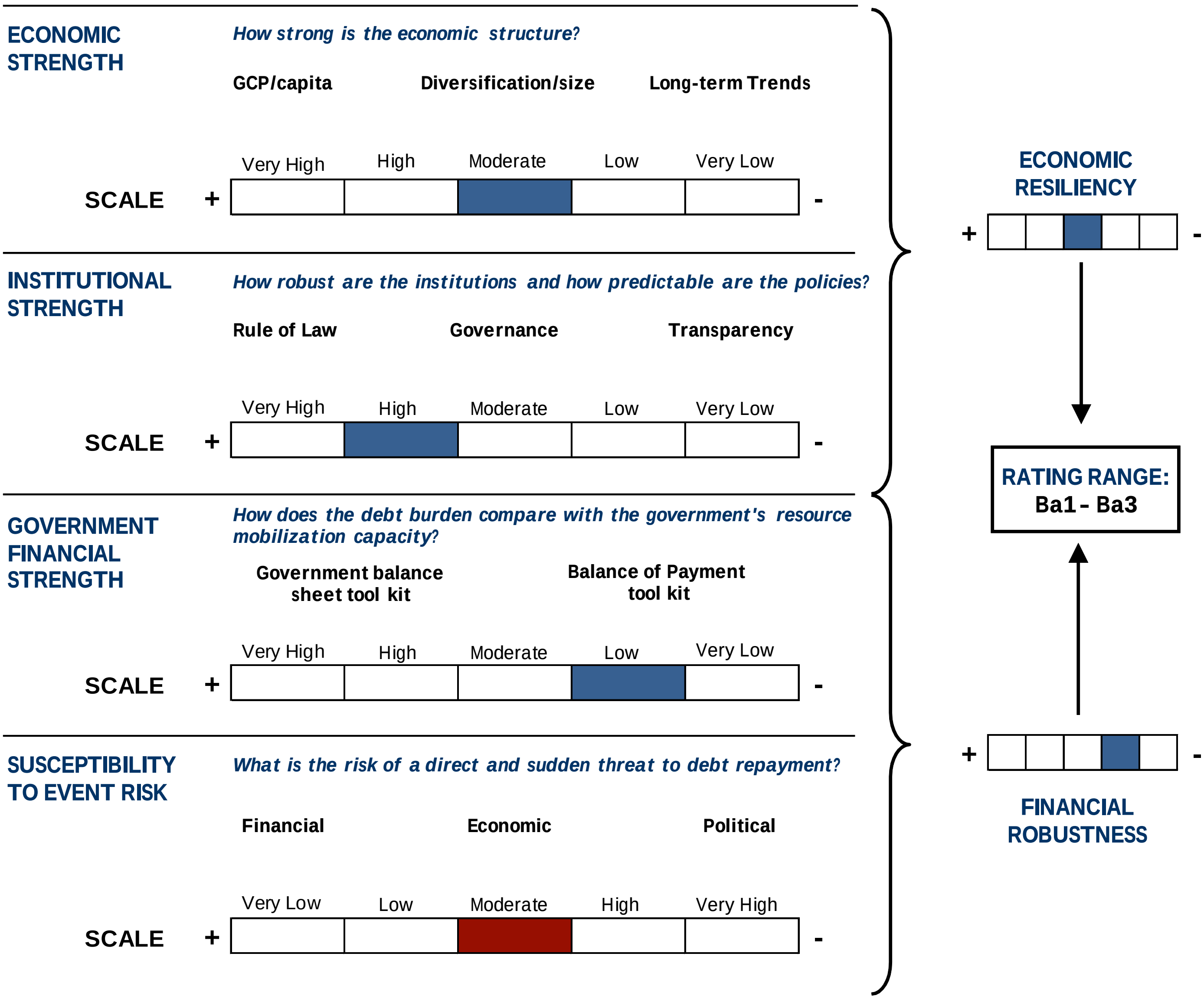
Failure to reach an agreement could have a detrimental impact on Iceland's external liquidity in 2011. The Nordic governments have re-instated their credit line for Iceland, but only under the condition that Iceland honours the Icesave obligation to the UK and Netherlands. Iceland would likely struggle to access the international capital markets without a resolution to the Icesave dispute and the Nordic financing line in place as a backstop.

Normalisation of the currency regime. Iceland introduced capital controls in the midst of the crisis in December 2008, and those controls have been further tightened on several occasions. The capital controls, together with relatively high interest rates and a trade surplus, were successful in arresting the downward slide of the currency in mid-2009, and the currency has been stable since that time. In fact, as the trade account is in surplus, the currency has been gradually appreciating in recent months, even with the uncertainty caused by the Icesave problems.

The controls are deemed to have a limited useful life, and the government has committed to removing the controls as soon as it is feasible. However, removing the controls will be complicated by a number of factors, particularly the estimated €2.9 billion in foreign 'hot money' currently invested in the country. The money – previously invested in high-yielding ISK denominated assets – was trapped when the Icelandic financial markets froze in October 2008, and is expected to seek to exit the country when possible, placing downward pressure on the currency. A decision against EU membership would also complicate removal of the controls and normalisation of the currency regime, as it would eliminate the possibility of euro adoption.

Litigation risk. The Icelandic government is currently the defendant in various lawsuits related to the emergency law passed in October 2008 that made domestic depositors the senior-most creditors to the banks. As it currently stands, the Icelandic depositors guarantee fund is the senior-most creditor to the former Landsbanki, and therefore is first in line to claim the foreign assets of the bank (the government plans to use these assets to reduce the Icesave obligation). An early judgment from the EFTA surveillance authority was in Iceland's favour, but the legal process is expected to take many years. A unfavourable ruling, though not expected by Moody's, could significantly increase the government's debt burden and threaten fiscal sustainability.

Sovereign Rating Mechanics: Iceland[22]



22 Link to our Sovereign Bond Rating Methodology

Rating History

Iceland

	FOREIGN CURRENCY CEILINGS				GOVERNMENT BONDS			
	BONDS & NOTES		BANK DEPOSIT		FOREIGN CURRENCY	LOCAL CURRENCY	OUTLOOK	DATE
	LONG-TERM	SHORT-TERM	LONG-TERM	SHORT-TERM				
Outlook changed	Baa2	P-3	Baa3	P-3	Baa3	Baa3	Stable	April-10
Outlook changed	Baa2	P-3	Baa3	P-3	Baa3	Baa3	Negative	April-10
Outlook changed	Baa2	P-3	Baa3	P-3	Baa3	Baa3	Stable	November-09
Rating Lowered	Baa2	P-3	Baa3	P-3	Baa3	Baa3	–	November-09
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

Annual Statistics

Iceland

	2003	2004	2005	2006	2007	2008	2009F	2010F	2011F
Economic Structure and Performance									
GDP Nominal (US$ Bil.)	11.0	13.2	16.3	16.7	20.4	16.8	12.1	11.3	12.0
Population (Mil.)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
GDP per capita (US$)	37.879	45.305	54.934	54.813	65.686	53.168	38.035	35.128	36.868
GDP per capita (PPP basis, US$)	30.758	33.759	34.905	35.159	35.742	–	–	–	–
Nominal GDP (% change, local currency)	3.0	10.4	10.5	13.8	12.0	12.9	1.5	1.0	5.8
Real GDP (% change)	2.4	7.7	7.5	4.6	6.0	1.0	-6.5	-4.7	2.5
Inflation Rate (CPI, % change, Dec/Dec)	2.2	3.2	4.0	6.8	5.4	16.8	8.6	3.3	4.4
Gross Investment/GDP	19.8	23.4	28.3	35.2	29.0	24.6	14.2	13.9	14.6
Gross Domestic Savings/GDP	16.7	17.8	16.0	17.4	18.3	21.7	22.3	21.8	22.5
Nominal Exports of G & S (% change, US$ basis)	12.8	20.0	14.5	3.9	31.8	5.7	-15.2	-10.9	2.9
Nominal Imports of G & S (% change, US$ basis)	28.2	28.4	36.2	16.3	11.1	-14.0	-32.5	-11.5	2.4
Openness of the Economy[1]	71.7	73.9	75.7	82.3	80.0	91.9	96.5	91.6	88.9
Government Effectiveness[2]	2.24	2.19	2.20	2.15	2.06	1.58	–	–	–
Government Finance									
Gen. Gov. Revenue/GDP	42.8	44.1	47.1	48.0	47.7	44.2	42.4	40.5	42.3
Gen. Gov. Expenditure/GDP	45.6	44.1	42.2	41.6	42.3	57.8	51.5	50.8	49.2
Gen. Gov. Financial Balance/GDP	-2.8	0.0	4.9	6.3	5.4	-13.5	-9.1	-10.3	-6.9
Gen. Gov. Primary Balance/GDP	-0.1	2.5	7.1	8.5	8.0	-10.2	-2.3	-3.3	1.1
Gen. Gov. Debt (US$ Bil.)	4.84	5.24	4.14	4.91	6.04	5.21	17.38	17.70	19.59
Gen. Gov. Debt/GDP	40.8	34.5	25.4	30.1	28.5	42.5	144.7	154.7	160.6
Gen. Gov. Debt/Gen. Gov. Revenue	95.4	78.2	53.9	62.8	59.9	96.1	341.4	381.9	379.6
Gen. Gov. Int. Pymt/Gen. Gov. Revenue	6.4	5.5	4.7	4.5	5.4	7.6	16.0	17.3	18.9
Gen. Gov. FC & FC-Indexed Debt/GG Debt	56.1	52.0	40.8	55.6	47.9	70.5	57.8	56.6	54.5
Gen. Gov. Direct Debt Owed to Private Creditors/Gen. Gov. Direct Debt	100.0	100.0	100.0	100.0	100.0	81.8	43.0	43.5	45.2
Gen. Gov. Guaranteed Debt (US$ Bil.)	7.5	9.7	9.3	8.9	12.1	8.5	8.1	7.8	8.1
Total GG Direct & Guaranteed Debt (US$ Bil.)	12.34	14.99	13.44	13.79	18.15	13.67	25.50	25.45	27.66
Total GG Direct & Guaranteed Debt/GDP	104.2	98.5	82.4	84.5	85.8	111.6	212.3	222.4	226.7
Total GG Direct & Guaranteed Debt/Gen. Gov. Revenue	243.4	223.4	175.1	176.3	180.0	252.2	500.8	549.2	536.0

Iceland

	2003	2004	2005	2006	2007	2008	2009F	2010F	2011F
External Payments and Debt									
Nominal Exchange Rate (local currency per US$, Dec)	71.0	61.0	63.0	71.7	61.9	120.6	124.9	132.4	131.5
Real Eff. Exchange Rate (% change)	6.3	2.8	12.7	-6.8	5.6	-21.1	–	–	–
Current Account Balance (US$ Bil.)	-0.53	-1.32	-2.64	-4.35	-4.17	-6.61	-2.10	-1.02	-1.17
Current Account Balance/GDP	-4.9	-9.9	-16.2	-26.1	-20.4	-39.3	-17.3	-9.0	-9.7
External Debt (US$ Bil.)	16.5	27.2	46.6	72.2	120.1	39.0	36.8	30.4	29.3
Public Sector External Debt/Total External Debt	18.8	12.8	5.3	4.7	3.3	11.3	14.3	31.4	32.6
Short-term External Debt/Total External Debt	22.1	18.7	15.9	16.9	34.3	12.5	13.6	16.4	17.1
External Debt/GDP	139.6	179.1	285.7	442.7	567.9	318.3	306.6	266.0	240.2
External Debt/CA Receipts [3]	368.8	474.0	704.0	945.5	1.088.4	744.1	714.0	522.7	506.5
Interest Paid on External Debt (US$ Bil.)	0.30	0.39	0.77	1.86	3.08	2.51	0.32	0.43	0.40
Amortization Paid on External Debt (US$ Bil.)	2.05	2.58	3.72	5.12	16.76	9.12	1.88	1.23	3.81
Net Foreign Direct Investment/GDP	-0.4	-13.8	-24.5	-7.5	-48.6	42.2	9.1	6.2	5.8
Official Foreign Exchange Reserves (US$ Bil.)	0.76	1.02	1.01	2.27	2.55	3.49	3.70	4.65	4.65
Net Foreign Assets of Domestic Banks (US$ Bil.)	-1.45	-0.80	3.21	9.08	-23.39	-23.57	–	–	–
Monetary, Vulnerability and Liquidity Indicators									
M2 (% change Dec/Dec) [3]	22.4	13.5	29.3	60.1	8.5	35.8	23.4	–	–
Short-term Nominal Interest Rate (% per annum, Dec 31) [3]	7.7	10.3	12.0	15.3	15.3	22.0	11.5	–	–
Domestic Credit (% change Dec/Dec) [3]	28.2	39.3	62.8	43.1	8.9	34.1	–	–	–
Domestic Credit/GDP	130.3	164.4	242.2	304.6	296.3	374.1	–	–	–
M2/Official Forex Reserves (X)	8.9	8.8	11.1	7.0	7.8	4.0	–	–	–
Total External Debt/Official Forex Reserves	2.164.4	2.678.6	4.614.8	3.176.0	4.713.1	1.119.0	995.2	654.7	630.2
Debt Service Ratio [4]	56.5	59.4	67.9	89.5	186.2	161.9	42.3	28.7	73.8
External Vulnerability Indicator [5]	746.4	753.0	1.103.8	763.0	2.273.6	401.6	186.0	134.0	189.5
Liquidity Ratio [6] [7]	163.8	95.1	111.3	75.3	162.5	237.4	222.6	–	–
Total Liab. due BIS Banks/Total Assets Held in BIS Banks [7]	466.3	359.4	314.1	207.1	305.5	409.7	365.8	–	–

[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] Current Account Receipts

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

[7] 2009 as of September

Moody's Related Research

Statistical Handbook:

» Moody's Country Credit Statistical Handbook, November 2009 (121293)

Banking System Outlook:

» Banking System Outlook: Iceland, June 2009 (118212)

Rating Methodology:

» Sovereign Bond Ratings, September 2008 (109490)

Special Comment:

» European Sovereign Outlook, January 2010 (121440)

» Sovereign Risk: Review 2009 and Outlook 2010, December 2009 (121695)

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.

Report Number: 124232

Author
Kenneth Orchard

Senior Associate
José Abad

Production Associate
Cassina Brooks

MOODY'S
INVESTORS SERVICE