

## **Fitch Downgrades Iceland to 'BBB-'/A-'; Rating Watch Negative**

Fitch Ratings-London-8 October 2008: Fitch Ratings has today downgraded the Republic of Iceland's Long-term foreign and local currency Issuer Default ratings (IDR) to 'BBB-' (BBB minus) and 'A-' (A minus) respectively. The Short-term IDR is also downgraded to 'F3' from and the Country Ceiling to 'BBB-'. All Iceland's sovereign ratings remain on Rating watch Negative.

Maintenance of investment grade status reflects the Icelandic authorities stated commitment to prioritise sovereign debt service. Fitch has been assured that the Central Bank of Iceland has set aside foreign exchange reserves to fund some USD600 million of Euro and US dollar denominated commercial paper that matures over the coming months, after which sovereign external debt service is small (just USD215mn in 2009). However, given the severity of the coming recession which will result in a further deterioration in banks' domestic assets, as well as the uncertainty as to the extent that the sovereign can distance itself from the foreign and foreign currency liabilities of Icelandic banks, as well as the need to stabilise the exchange rate, failure to develop a coherent and credible macroeconomic stabilisation programme, with support from the international financial community, notably the IMF, will result in a downgrade of Iceland's sovereign ratings to sub-investment grade.

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