



Decide with Confidence

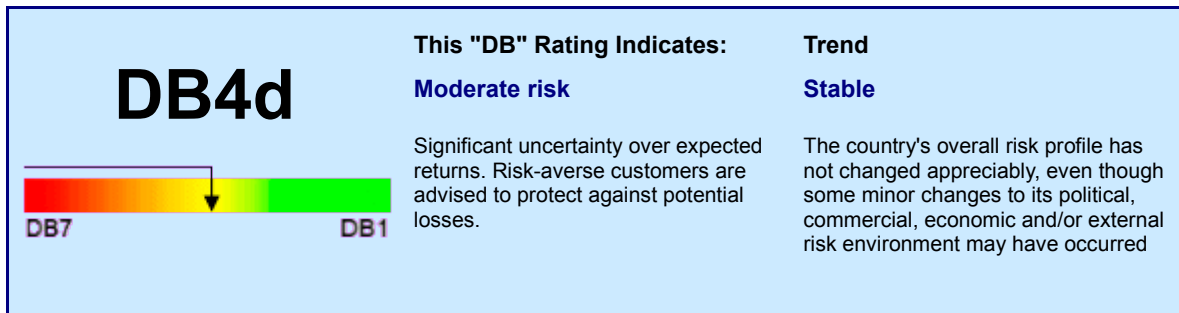
D&B Country RiskLine Report

ICELAND

Region : Western Europe

Edition : July 2011

D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	0.3m
Surface area (sq km):	103,000
Capital:	Reykjavik
Timezone:	GMT
Official language:	Icelandic
Head of government:	Prime Minister Johanna SIGURDARDOTTIR
GDP (USD):	11.8bn
GDP per capita (USD):	35,829
Life expectancy (years):	81
Literacy (% of adult pop.):	99.9

Country Overview:

The island state of Iceland is located in the North Atlantic, between Greenland, Norway and the British Isles. While not a member of the EU, Iceland participates in the European Economic Area (EEA), which confers most of the economic advantages of EU membership on the country (although, notably, agricultural and fishery products remain outside the EEA's scope). With no army of its own, Iceland's external security is guaranteed by NATO membership and a bilateral defence treaty with the US. Domestically, the country adheres the Nordic tradition of a tightly-knit welfare system and consensus-oriented coalition politics. However, the fallout from the global financial crisis has led to political instability and a shift to the left on the political spectrum.

The financial crisis has affected Iceland's economy deeply due to its bloated financial sector and reduced access to external finance. Iceland's status as a prosperous country with high levels of income and employment has been undermined. The economic structure is influenced by the country's natural resources: fish remains the biggest export, while possibilities for geothermic electricity generation have attracted energy-intensive industries such as aluminium smelters.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	LC
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	CLC
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D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:	30 days
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Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	1-3 months
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays:

0-2 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Trade & Commercial Environment

The latest bankruptcy data published by the national statistics office show that the number of insolvencies increased by 25.8% year on year (y/y) in April; in all, 83 companies went bankrupt. While the manufacturing sector recorded a decline (down 50.0% y/y), the construction, wholesale and retail trade sectors showed no change in insolvency rates. The increase in April was driven by developments in the real estate sector (up 50.0%) and, more worryingly, by the financial sector, where the number of insolvencies rose from just one in April 2010 to 19 in April 2011. For the economy as a whole, we believe that bankruptcy rates will remain at their current elevated levels throughout 2011, as corporate debt restructuring is making only slow progress.

Export Credit Agencies

US Eximbank	Full cover available
Atradius	No cover available
ECGD	Please contact ECGD for MT or ST cover
Euler Hermes UK	Restrictions will apply

Economic Indicators

	2008	2009	2010e	2011f	2012f
Real GDP growth, %	1.4	-6.9	-3.5	0.6	2.1
Inflation, annual ave, %	12.4	12.1	5.4	2.5	2.3
Govt balance, % GDP	-13.5	-9.1	-9.4	-8.7	-5.0
Unemployment, %	3.1	7.3	7.6	7.2	6.5
C/A balance, % GDP	-26.5	-10.4	-7.7	1.9	3.3

Currency Information

Exchange Rates

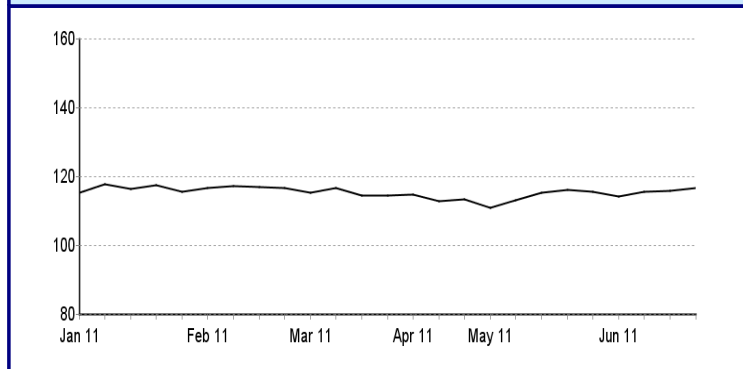
(London, 27 Jun 11)

EUR	165.086
GBP	186.093
JPY*	144.902
USD	116.545

*(x 100)

Local Currency

(Icelandic krona [ISK]: USD)

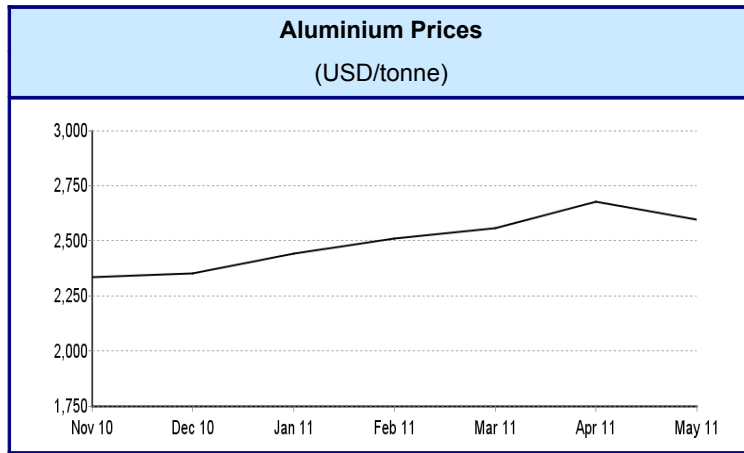


Local Currency

(Icelandic krona [ISK]: USD)

	Jan 11	Feb 11	Mar 11	Apr 11	May 11	Jun 11
Week 1	115.295	116.485	115.070	114.595	110.945	113.975
Week 2	117.580	117.205	116.480	112.615	113.105	115.410
Week 3	116.305	116.960	114.445	113.255	115.285	115.835
Week 4	117.305	116.560	114.425		116.025	116.545
Week 5	115.615				115.565	

Aluminium Prices



Data Table						
Nov 10	Dec 10	Jan 11	Feb 11	Mar 11	Apr 11	May 11
2333.0	2351.0	2440.0	2508.0	2556.0	2678.0	2596.5

Risk Factor

D&B has upgraded Iceland's country risk rating by one quartile to DB4d, so that the country is now ranked in our 'moderate risk' category. The upgrade is due to improved economic conditions: real GDP grew faster than expected in Q1 2011; in year-on-year (y/y) terms, the economy grew by 2.2% (after having grown by 0.1% in Q4 2010). While private consumption remained muted in Q1 2011 (up 1.6% y/y) and government consumption declined moderately (-1.0% y/y), gross fixed capital formation increased by a sizable 13.8% y/y. Most of the investment is directed to the booming aluminum smelters, which operate at production limits. The sector benefits from ongoing high demand and prices (although a modest slowdown is likely in the second half of the year). Elsewhere, the country increased its fish catch (the most important export product) by 25% y/y in Q1, but overall exports fell and were outperformed by import growth. The shortfall in exports (-0.7% y/y in Q1) is due to base effects and the production constraints of the aluminum sector. In the light of the surprisingly strong performance in Q1, we have also revised our growth forecast for 2011 upwards: we now expect real GDP to grow by 1.7% (up from 0.6% in our previous forecast). However, we believe that growth in H2 2011 will be based on investment (and, to a lower extent, private consumption), rather than exports.

The disbursement of a further EUR155m from Iceland's Standby Arrangement (SBA) with the IMF also contributed to our risk rating upgrade, as it increases the level of FX reserves. The accumulation of reserves is a necessary step towards abolishing the capital outflow controls that have been in place since 2009; government officials announced that this process will start at the end of 2011. In its fifth review of the SBA, the IMF was satisfied with the progress Iceland has made in the implementation of reforms (e.g. the strengthening of financial supervision capability). However, the Fund has called for a quicker debt restructuring of households and companies, and for more vigilance in the fight against inflation (consumer prices increased by 3.4% y/y in May, up from 1.9% in January). Positively, core inflation and inflation expectations are still low, but strong wage growth might create persistent inflationary pressures.

Also positively, the country has made significant progress towards EU accession. Iceland has successfully completed negotiations on 21 chapters (out of 33) with the EU, and an additional four chapters will be translated into national law soon. Although it is desirable from an economic point of view, we do not believe that a quick EU (and euro) accession is likely. Negotiations about fishery policy (the eternal bone of contention between Iceland and the EU) have not started yet, and 57.1% of the Icelandic electorate would vote against accession in a (mandatory) referendum.

Glossary & Definitions

DEFINITIONS

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Recommended Terms:

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:

Normal period of credit associated with transactions with companies in the stated country.

Local Delays:

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

F/X Bank Delays:

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C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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