



**Rating Action: Faroe Islands, Government of**

**Moody's assigns Aa2 rating to the Faroe Islands; Stable outlook**

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**First-time rating**

New York, March 04, 2008 -- Moody's Investors Service today assigned a Aa2 long-term foreign currency rating to the Faroe Islands. Moody's says that the rating is supported by the strong financial results the Faroe Islands has achieved since 1995, its ample reserves, moderate-and-decreasing debt, and the falling interest burden in the national budget.

"In spite of the challenges of managing an economy dependent on fishing, the Faroe Islands has achieved solid financial results over the past decade. The Faroe Islands reached an eight percent surplus in 2006, with similar results expected for 2007. Conservative budgeting, the establishment of a settled relationship with the Kingdom of Denmark in the consideration of further autonomy and potential independence, and improving monitoring and controls have stabilised government finances," says Thomas Amenta, a Moody's Vice President, Senior Credit Officer, and lead analyst for the Faroe Islands.

In its rating, Moody's has considered the Faroe Islands' high reliance on fishing and fish-related industries, especially for export income. Economic volatility and its effect on tax revenues are therefore expected to remain substantially higher than those of Denmark and its local governments.

"The Faroese government has dropped subsidies to businesses and ended the use of guarantees, which had contributed to the economic crisis of the early 1990s. The Faroe Islands is now much more resilient, as the economy in general and the fishing industry in particular are increasingly diversified," says Associate Analyst Mattias Frithiof.

According to Moody's, the rating is supported by the government's powers to raise revenues through taxation and fees and to control spending. It also reflects the Islands' relationship within the Kingdom of Denmark, the subsidies it receives for matters it administers in conjunction with the Kingdom, and the regulation of its banks by the Danish FSA.

The Aa2 rating also reflects a high likelihood that the Kingdom of Denmark (Aaa, stable) would act to prevent a default of the Faroe Islands. The support assumption reflects the current relationship with the Kingdom of Denmark, unlikely changes to this relationship in the medium term and past support from the Kingdom.

The Faroe Islands is a self-governing country within the Kingdom of Denmark. It is an archipelago of 18 islands located in the North Atlantic, with its closest neighbours being the United Kingdom and Iceland. The standard of living for its population of 48,350 is high, but slightly lower than that of other Nordic countries.

New York  
Yves Lemay  
Managing Director  
International Public Finance  
Moody's Investors Service  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

London  
Thomas Amenta  
VP - Senior Credit Officer  
International Public Finance  
Moody's Investors Service Ltd.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

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