



Isle of Man

Ratings and Contacts

<u>Category</u>	<u>Moody's Rating</u>
Country Ceiling: Fgn Currency Debt	Aaa/P-1
Country Ceiling: Fgn Currency Bank Deposits	Aaa/P-1
Isle of Man, Government of	
Issuer Rating	Aaa
Government Bonds -Dom Curr	Aaa

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Key Indicators

Isle of Man	1997/98	1998/99	1999/00	2000/01	2001/02
Total intergovernmental revenues/total revenues (%)	0.00	0.00	0.00	1.88	1.59
Financing deficit/surplus as % of total revenues (%)	9.58	11.38	-6.84	16.45	-17.49
Interest expenses/total revenues (%)	0.02	0.01	0.00	0.94	0.79
Debt/total revenues (%)	0.18	0.01	19.29	16.68	48.91
Primary operating balance/operating revenues (%)	9.65	11.69	13.92	19.32	23.36
Net operating balance/operating revenues (%)	9.36	11.51	13.92	18.26	22.47
Net operating balance/capital expenses (%)	69.19	84.58	38.18	141.16	40.67

Opinion

Credit Strengths

Credit strengths for the Isle of Man are:

- Buoyant and flexible economy, driven by financial services sector
- Substantial level of reserves (149% of revenues in 2002)
- Stable political relationship with the United Kingdom
- Prudent and conservative approach to financial management
- Debt levels remain relatively low
- Agreement reached with EU regarding harmful tax practices

Credit Challenges

Credit challenges for the Isle of Man are:

- Relatively small economic base
- Limited diversification of island economy
- Wider impact of future EU/ OECD policies designed to eradicate harmful tax competition
- Phasing out of corporate taxation will reduce financial flexibility

Rating Rationale

The Isle of Man's Aaa issuer rating reflects the stable and mutually beneficial relationship between the Isle of Man and the UK, the island's buoyant economy on the island (5% growth is forecast for the period 2002/3), and a recent history of prudent financial management. The Isle of Man consistently records operating surpluses, equivalent to an average of 15.2% of operating revenues over the past 5 years. This has enabled the government to fund the greater part of all capital expenditure projects through its own resources and to simultaneously cut taxes. Furthermore, the Isle of Man enjoys a high level of reserves, which are equivalent to 75% of GDP, and relatively low debt levels (49% of total revenues in 2002). The rating also takes into account the limited diversity of an economy that is geared towards the financial services sector, and the possible long-term impact of exogenous challenges to the low-tax, business-friendly environment offered in the Isle of Man.

Rating Outlook - Stable

The rating outlook for the Isle of Man is stable. Consistently strong financial performances bolstered by plentiful reserves, along with a dynamic, expanding economy continue to underpin the rating. Moreover, commitments made to the OECD meant that the island was not included on the OECD's tax-haven blacklist.

What Could Change the Rating - DOWN

As the largest share of the island's economy relates to international financial services, the Isle of Man's greatest threats are of an exogenous nature. Further and more wide-reaching moves, by the EU and/or OECD, to address the issue of harmful tax practices could potentially negatively influence the current rating. However, the buoyant nature of the economy and the pro-active governmental approach towards both business and external relations serve to mitigate these concerns.

Further, if the financial cushion provided by the island's sizeable reserves were to become substantially eroded in tandem with a significantly increased recourse to borrowing, the rating could suffer. But strict government policies on debt financing allay the likelihood of this scenario.

Recent Developments

The Isle of Man has continued to implement its overall tax strategy and further reduced both personal income and corporate taxes and, in June 2002, announced its intention to phase out corporate taxes, moving to a standard zero rate by 2006. The net revenue lost as a result of such a policy is estimated at £20 million per year; however the policy is indicative of the Isle of Man's determination to retain its competitive advantage.

In October 2002, the Isle of Man announced it had secured a bilateral agreement with the USA on the exchange of tax information between the countries.

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