



Press Release
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International Monetary Fund
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Statement by the IMF Mission to Iceland

A mission from the International Monetary Fund (IMF), headed by Mark Flanagan, visited Reykjavik during December 1-14 to undertake discussions for the second review under the US\$2.1 billion Stand-By Arrangement, approved on November 19, 2008 (see Press Release No. 08/256). The mission had productive meetings with senior government officials, as well as parliamentarians, academics, representatives of the private sector, and labor organizations. At the conclusion of the mission, Mr. Flanagan made the following statement:

“The Icelandic authorities and IMF mission have reached a staff-level agreement on the second review. The discussions have focused on fiscal plans for 2010, the public debt management strategy, and steps to fully recapitalize the banking sector and strengthen its regulation. The authorities and the mission anticipate that by January all policy actions for the review can be put into place. Provided financing assurances can be secured, this would allow the review to be brought forward for consideration by the IMF Executive Board.

“The mission found that while Iceland’s economy faces a difficult adjustment, policy successes to date have helped make the recession less severe than expected. GDP growth should resume during 2010, and with determined monetary policy implementation, both currency stability and disinflation objectives are within reach.

“The outlook for public debt has improved since the time of the first review, reflecting lower bank recapitalization costs. The outlook for the net public external debt has also improved, including due to higher estimated asset recovery. Although the external debt of the private sector is now understood to be larger, and enough so to slightly lift the overall external debt level, this upward revision does not materially impact sustainability.

“The mission welcomes the work done by the government to translate fiscal consolidation plans into a 2010 budget. The existing high deficit has helped cushion the economy, but cannot be sustained. The improved debt outlook has allowed the adjustment to be slightly more gradual than originally envisioned, in support of the recovery, and the adjustment has been designed to protect key elements of the social safety net. To limit financing risks, it will be important to complement consolidation efforts with a strategy to smoothly manage gross borrowing needs.

“The recapitalization of the banking system should soon be complete. Care must be taken, as it comes to a conclusion, to avoid absorbing private sector losses, and to treat creditors fairly, in line with applicable law. Further operational restructuring and implementation of the voluntary framework for private sector debt restructuring lie ahead. These actions will ultimately allow for a revival of credit, which will support Iceland’s recovery.