



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 June 14-28 to hold discussions for the 2010 Article IV Consultation and the third review under the US\$2.1 billion Stand-By Arrangement (see Press Release No. 08/256). The mission met with senior government officials, 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 held productive discussions focused on fiscal plans for 2011, the strategy for restructuring household and corporate debt, and the operational restructuring of the banking sector. Agreement has been reached in most of these areas regarding policies that can deliver program objectives. However, it was also agreed that more time will be needed to assess the impact of a recent Supreme Court ruling on loans indexed to foreign exchange rates. Discussions will continue through the coming weeks, with the aim of bringing the review for approval to the Fund’s Executive Board in early September.

“While Iceland’s economy has technically emerged from the post-crisis recession, headwinds and risks remain significant. Nevertheless, the recovery is expected to gather momentum towards the end of the year, and with prudent monetary policy, the recent success in stabilizing the currency and reducing inflation can continue.

“The financial sector faces some balance sheet uncertainty in the wake of the recent Supreme Court ruling. System stability is not at risk given the government’s blanket deposit guarantee. However, the ruling may have potential implications for public finances, the pace of capital control liberalization, and other aspects of the program. Final agreement with the mission on policies needed to complete the review will require clarification of the implications of the ruling.

“The mission welcomes the changes to the household debt restructuring framework introduced last week. Both household and corporate debt restructuring must be accelerated to support Iceland’s recovery. Attention should now shift to making the framework function well. Key near-term actions include establishing and expanding the Debtors’ Ombudsman office, and approving sufficient bank guidelines for corporate debt workouts.

“The government has made significant progress in preparing the budget for 2011. The planned 3 percent of GDP fiscal adjustment can deliver a primary surplus and a reduction in Iceland’s public debt, provided budget implementation stays on track in 2010, and banking sector contingencies are small. Spending reductions are the bulk of the proposed adjustment, and the focus of the work should now be on translating approved administrative reductions into concrete measures.