

Press Release concerning IMF's staff report

According to an assessment by IMF experts, the economic recovery programme drafted by the government in co-operation with the IMF is in general proceeding successfully. The report, which has been made public at the request of the Icelandic authorities, is based on the examination by IMF missions to Iceland in December. It is available on the IMF website and on the Icelandic government's information website, (see below). Its main conclusions are that implementation of the programme is proceeding well and that the overall objectives laid down by the Icelandic government and the Fund are still realistic, but that diligent efforts must continue if these goals are to be achieved.

The most pressing short-term task, that of stabilising the ISK, has in the main been achieved. The government's revised 2009 budget was also in accordance with the programme, and drafting of medium-term fiscal policy has begun. Similarly, the restructuring of the banking system is proceeding positively, although here major tasks await, in the estimation of IMF experts. This view accords with the opinion of the Icelandic government.

There has been some delay in recapitalising the banks due to how extensive and thorough an assessment of their situation is required before this can begin. Since IMF experts were in Iceland in December, however, this work has also made more rapid headway than previously. Deloitte is currently evaluating the banks' assets and liabilities, while the international consultancy firm Oliver Wyman will review all of this work to ensure it satisfies the requirements agreed with IMF. IMF personnel will be informed on the status of this matter when they return to Iceland in February, at which time the progress will be assessed.

Although monetary policy measures have already borne positive results, IMF experts are of the opinion that it is too early yet to change direction. Continuing FX market and price level stability could provide the opportunity to gradually relax restrictions on the flow of capital and cut interest rates in small stages.

On the whole, it could therefore be said that the implementation of the ambitious programme drafted by the government in co-operation with IMF for Iceland's economic recovery is proceeding almost better than could be expected. Circumstances can, naturally, change quickly and it is important to be able to respond to such changes. So far, this has been accomplished.

The first formal review of the economic recovery programme takes place in February. IMF experts and government representatives will assess the programme and its conceivable future progress. New benchmarks will also be set for the second review of the programme. .

The IMF report is accessible in Icelandic translation on the following websites:

www.island.is

www.stjr.is

www.sedlabanki.is

www.forsaetisraduneyti.is

and in English on the Icelandic government's information website, www.iceland.org/info.