



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 May 19-28 to continue discussions for the first 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:

“Considerable progress has been made towards completing first review. The discussions focused on ensuring that key bank restructuring and fiscal consolidation measures, which have been delayed, can be put in place as soon as possible. The mission and the authorities agreed that these and a few other outstanding issues could be addressed by end-June. This would allow the review to be brought forward in mid-July for consideration by the IMF Executive Board.

“The mission found that the macroeconomic outlook remains broadly in line with that foreseen in the program. The economy should bottom out during the second half of the year, and begin a recovery in 2010. Debt should remain sustainable. With determined monetary policy implementation, both currency stability and end-year inflation targets will remain within reach.

“It remains a key program objective to remove capital controls as quickly as possible, and in a manner consistent with currency stability. The process can likely commence later in 2009, but will be gradual. The controls should be enforced in the interim, but since there are some margins for avoidance that are difficult to eliminate, preserving currency stability will continue to require a firm monetary policy stance. And stability remains important due to balance sheet exposures.

“The mission welcomes the authorities’ commitment to put in place a fully operating banking system as soon as possible. This will underpin a stronger economic recovery. With asset valuation in the new banks now complete, it will be important to move expeditiously towards discussions with creditor representatives, and towards recapitalization of the new banks. Operational restructuring and targeted household and corporate debt restructuring initiatives can move forward in parallel, but will take some additional time to complete.

“The mission also welcomes the work by the government towards a fiscal consolidation plan. The present high deficit is cushioning the economy, but cannot be sustained, and adjustment could contribute to a better policy mix. It will be important to develop a domestic consensus about adjustment measures, and to ensure that the burden of adjustment is distributed fairly.