



Press Release  
FOR IMMEDIATE RELEASE  
March 13, 2009

International Monetary Fund  
Washington, D.C. 20431 USA

### **Statement by the IMF Mission to Iceland**

A mission from the International Monetary Fund (IMF), headed by Mark Flanagan, visited Reykjavik February 26-March 13 to conduct 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 representatives of the private sector and labor organizations. At the conclusion of the mission, Mr. Flanagan made the following statement:

“The first review discussions touched on a number of subjects, including: the macroeconomic outlook; a comprehensive and well sequenced plan to lift capital controls and reduce interest rates; the technical work towards a medium-term fiscal consolidation plan; the restructuring of the failed banks; and household debt restructuring. Progress was made in each of these areas, and work will continue over the near-term towards finalizing a number of technical details. Once remaining technical issues are sorted out, discussions will resume, and upon conclusion, the review can be brought forward 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 crisis has led to a sharp drop in economic activity, but a late-year turnaround remains within reach. Meanwhile, the króna has stabilized and inflation appears to have peaked—indicating that the program is delivering results.

“Monetary and fiscal policies are in transition. The macroeconomic outlook suggests that conditions are falling into place for a gradual loosening of the monetary stance. To support this monetary strategy and ensure debt sustainability, fiscal policy must soon shift from the present counter-cyclical stance to consolidation mode.

“Financial sector restructuring needs to be moved forward. The mission welcomes the authorities’ continued commitment not to absorb any further private sector losses from the banking crisis; to provide for fair, equitable, and non-discriminatory treatment of depositors and creditors in line with applicable law; and to have a fully operating banking system in place as soon as possible.

“The mission welcomes the government’s debt restructuring objective, which will help facilitate economic recovery. It will be crucial that any scheme is well-targeted, to minimize fiscal costs, and appropriately sequenced with other financial sector reform measures.”