

SPEAKING NOTES

(short version)

The Global Financial Crisis and Iceland

Key message #1: The IMF economic stabilization program is on track

Key message #2: Wide-ranging reform process is ongoing

Key message #3: We are cautiously optimistic about Iceland's long-term prospects

Introduction

Iceland was among the first countries to be hit by the global financial crisis. The new coalition Government of the Social Democrats and Left Green Movement, which took power early May, has put forward a thorough plan on how to rebuild the economy and revive the welfare society. Even if the coming months will be hard, the Government is cautiously optimistic about Iceland's medium and long term prospects.

Key message #1: IMF stabilization program is on track

- Iceland's new Government is fully committed to the stabilization program of the IMF. The macroeconomic outlook remains broadly in line with what had been planned.
- The Government believes the IMF program is vital for re-establishing confidence in our economy. The focus is on stabilizing the exchange rate, revising fiscal policy and restructuring the banking sector.
- Despite unprecedented rise in unemployment and public debt, other economic data seem slowly to be developing in our favour. The balance of trade with other countries is now positive, foreign exchange revenues are gradually increasing, inflation is going down, and interest rates are expected to be lowered further.

Key message #2: Iceland active in reform processes bot domestically and abroad

- Although Iceland became a victim of the international credit crunch, it is clear that Iceland made its own mistakes. The banks overextended themselves and we now realize that authorities should have fulfilled their supervisory role more vigorously.
- The Government has actively participated in discussions and work at the European level on how to restructure the financial markets supervision in Europe. Iceland sent comments to the European Commission comments on the proposals made in the

Larosi re report on how to address the financial meltdown and the actions necessary to remedy the crisis on the European level.

- Iceland has also sought the assistance of - and benefited from the advice of – the international community. Renowned international experts have worked with Icelandic experts in the reform process domestically.
- First, a thorough banking sector reform is taking place. The collapsed banks were split into old banks and new banks in order to avoid economic meltdown.
- Solvency issues related to the old banks are being dealt with by special Receivership Committees. Iceland is fully committed to internationally recognized principles of transparency and equity with regards to fair treatment of creditors.
- Second, wide-ranging regulatory reform has taken place in order to strengthen financial supervisory authorities.
- New laws on the Icelandic Central Bank were passed in February, and changes have been introduced in the Icelandic Financial Supervisory Authority.
- Third, a thorough investigation has been launched on the sources of the crisis and possible legal wrongdoings in the run up to the crisis.
- Finally, political reform is ongoing. Support for the IMF program has been reaffirmed by the new Government and well a outlined policy plan has been put forward on further economic and social reforms.

Key message #3: Iceland’s long-term prospects are cautiously positive

- Economic forecasts agree that 2009 will be a year of contraction and 2010 likely a year of stagnation, but that economic growth should pick up in 2011.
- Despite bleak short-term outlook, with rising unemployment and public debt, Iceland has positive long-term prospects for recovery.
- Iceland’s fundamentals remain strong. Sustainable use of clean energy and marine resources backed by a good infrastructure, culture of innovation, and a young and well educated workforce, work in our favour.
- The Government appreciates the strong support and solidarity that has been shown. By the same token, Iceland expresses solidarity with other countries that are facing similar difficulties, and remains committed to common international solutions.