

Letter to Dominique Strauss-Kahn and José Manuel Barroso ahead of Iceland national referendum

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Thanks to Helga Thordardottir for sending a copy of a letter sent to Dominique Strauss-Kahn and José Manuel Barroso ahead of the national referendum in Iceland on April 9th.

This letter is being sent on the initiative of Gunnar Tómasson, IMF Advisor (ret.), and several other Icelanders to Mr. Dominique Strauss-Khan, Managing Director of the International Monetary Fund, and Mr. José Manuel Barroso, President of the European Commission in view of the key role played by the IMF and the EU in the launching in November 2008 of negotiations on the Icesave issue. At the time, the IMF made projections of Iceland's economic prospects and it was agreed that if actual developments were significantly less favorable, then Iceland could request discussions with the United Kingdom and the Netherlands on the implications thereof for the Icesave issue itself. Recent IMF estimates of developments in 2009-2010 and projections for 2011-2013 are much less favorable than the earlier projections. The letter writers are concerned that the current Icesave settlement proposal, which is to be submitted to a national referendum next April 9, does not reflect these adverse developments. Therefore, they request that the IMF and the EU "undertake urgently a thorough, independent review of Iceland's prospective debt service capacity lest a hasty resolution of the Icesave issue force Iceland into an unsustainable external debt trap."

Reykjavik 28. March 2011

Mr. Dominique Strauss-Kahn

Managing Director

International Monetary Fund

Washington, DC 20431

USA

Dear Mr. Strauss-Kahn:

The collapse of Iceland's financial system in October 2008 entailed a 25% fall of its GDP in 2009-2010, from \$17.0 billion to \$12.8 billion. The IMF staff now projects an increase of 14.8% in GDP in the next three years, to \$14.7 billion in 2013, a level 13% below that of 2008. The outlook is

less grim in constant ISK prices. GDP in 2013 is now projected to be 2-3% below its 2008 level, an outcome some 4-6% less favorable than projected in November 2008.

In brief, Iceland's near-term macro-economic outlook is markedly worse than anticipated when the Brussels guidelines for ICESAVE negotiations were agreed under the auspices of ECOFIN in November 2008.

At the same time, the IMF staff estimates that Iceland's gross external debt at end-2009 amounted to 308% of GDP, or nearly double the ratio of 160% projected in November 2008. In its report on Iceland, dated December 22, 2010, the IMF staff projects an end-2013 gross external debt ratio of 215% of GDP (Table 3, p. 32), or more than twice the 101% ratio projected in November 2008 (Table 2, p. 27).

Iceland's gross external debt position at end-2009 far exceeded the 240% of GDP which the IMF staff judged "clearly unsustainable" in its report of November 25, 2008 (p. 55).

The principal aim of the ICESAVE negotiating process launched in November 2008 was to ensure a settlement of complex issues which all parties, including the EU and the IMF, agreed should be concluded concurrently with the restoration of Iceland's economy.

We, the undersigned citizens of Iceland, are gravely concerned that the current ICESAVE settlement proposal is inconsistent with that principal aim, given the macro-economic and gross external debt developments and prospects outlined above.

Therefore, we respectfully call on the EU and the IMF to undertake urgently a thorough, independent review of Iceland's prospective debt service capacity lest a hasty resolution of the ICESAVE issue force Iceland into an unsustainable external debt trap.

Yours sincerely,

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Rakel Sigurgeirsdóttir, language teacher
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