



Iceland: Challenges Ahead

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Key Challenges

- Growth/unemployment challenge
- Lift capital controls
- Reduce public debt
- Continue with financial sector reforms
- Complete HH and corporate debt restructuring

Growth/Unemployment

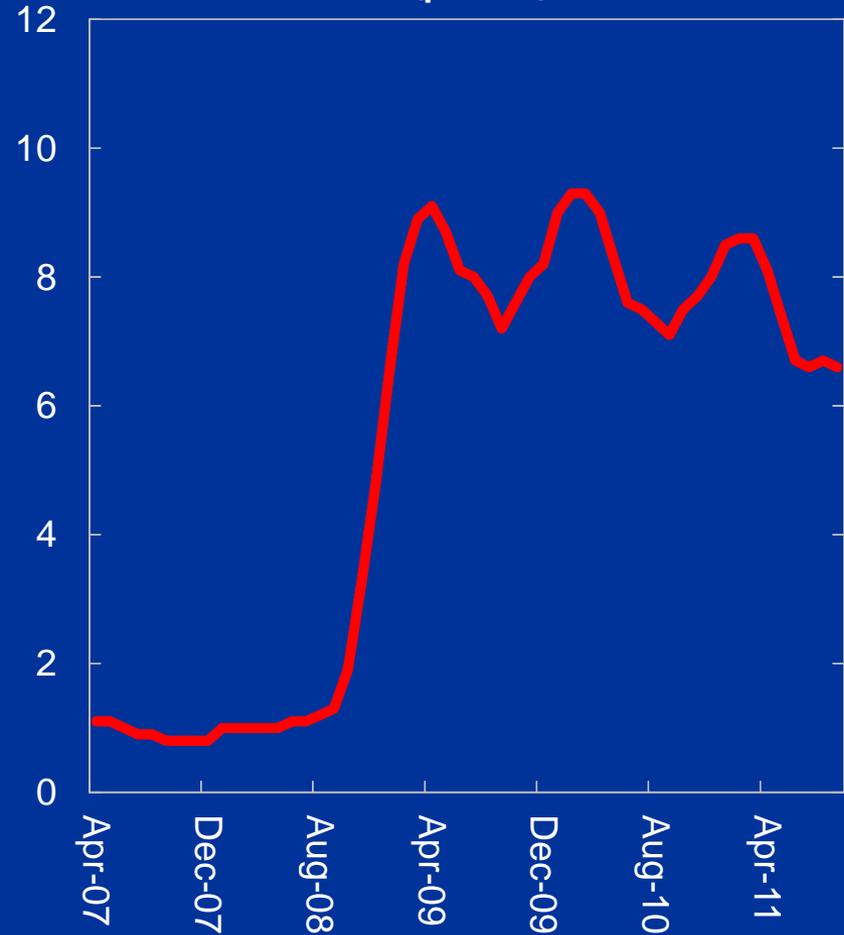
- Reducing unemployment a priority
- Corporate debt restructuring critical for robust growth, lower unemployment
- Investment-led growth

Key risk

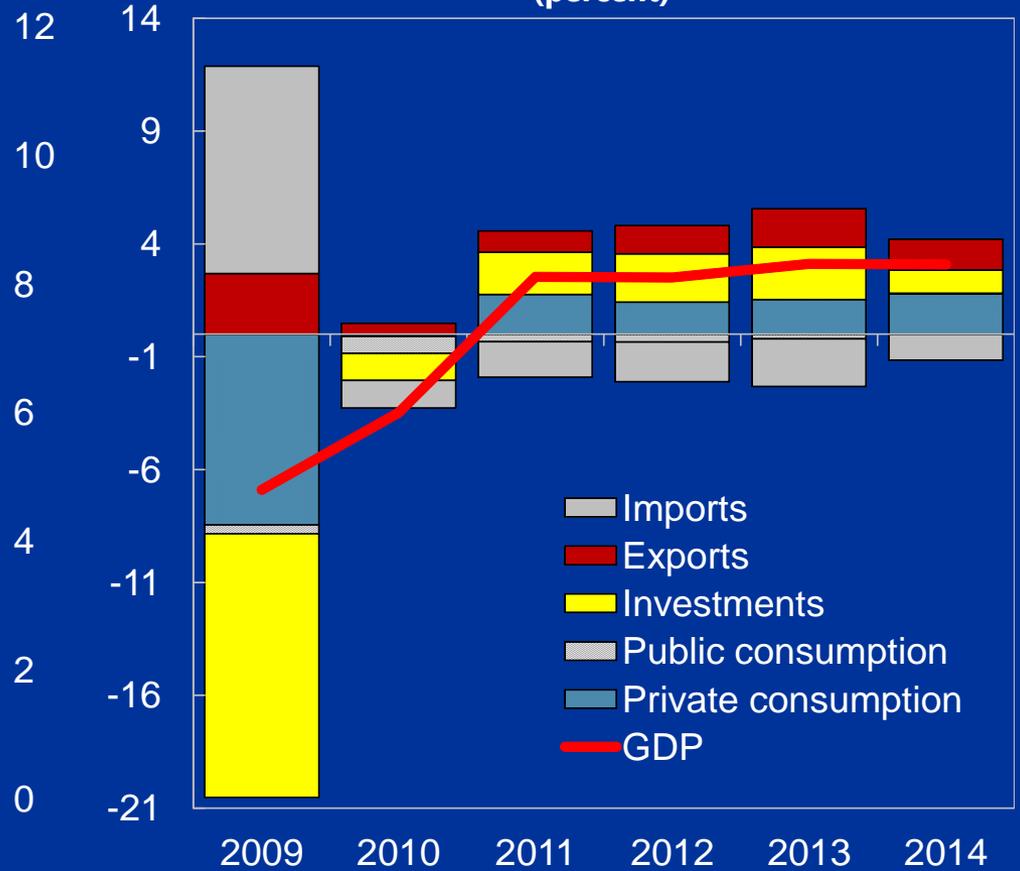
- External environment

Unemployment and Growth

Unemployment rate (percent)



Contribution to GDP Growth (percent)



Lifting Capital Controls

Scale of challenge is large

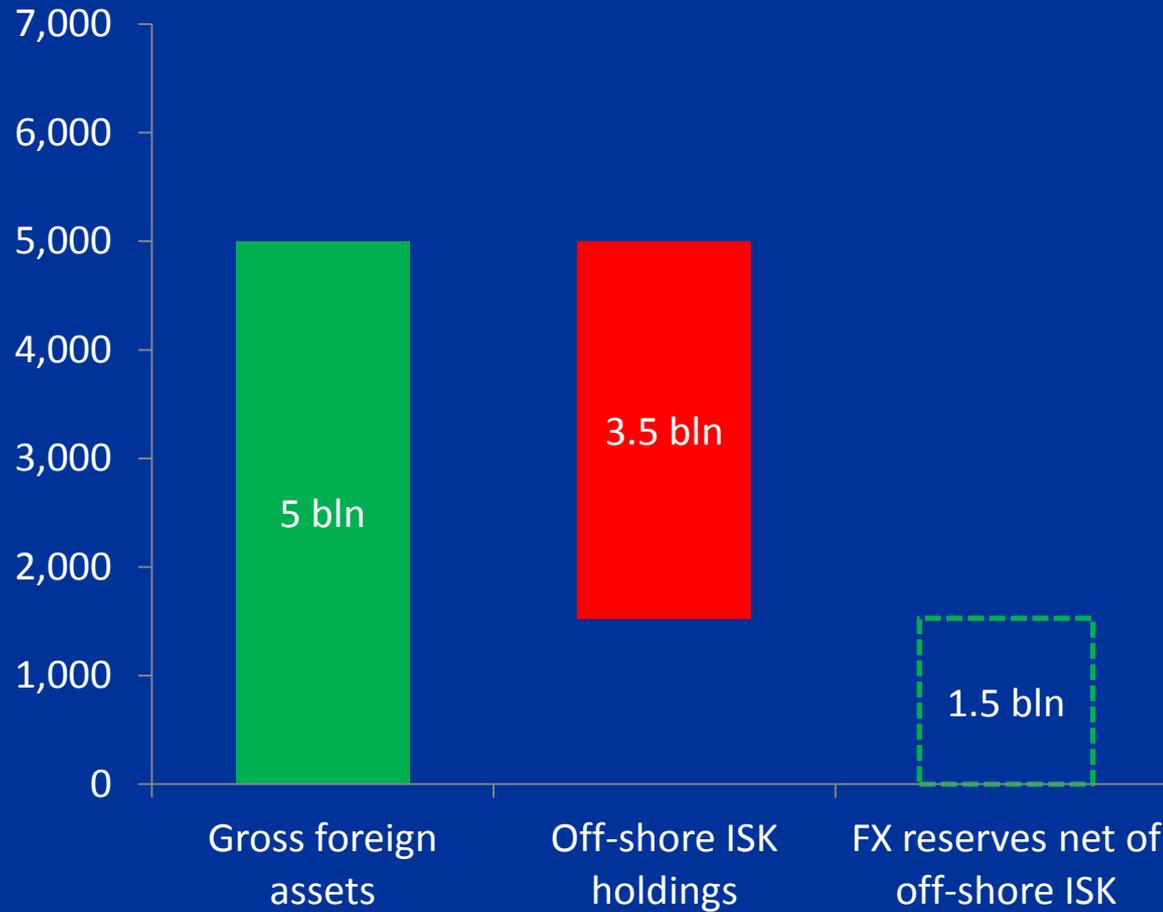
- Offshore krona about 30% of GDP

Key issues determining the pace of liberalization

- Reserve adequacy/exchange rate stability
- Financial stability/bank liquidity
- Market access (sovereign, banks)

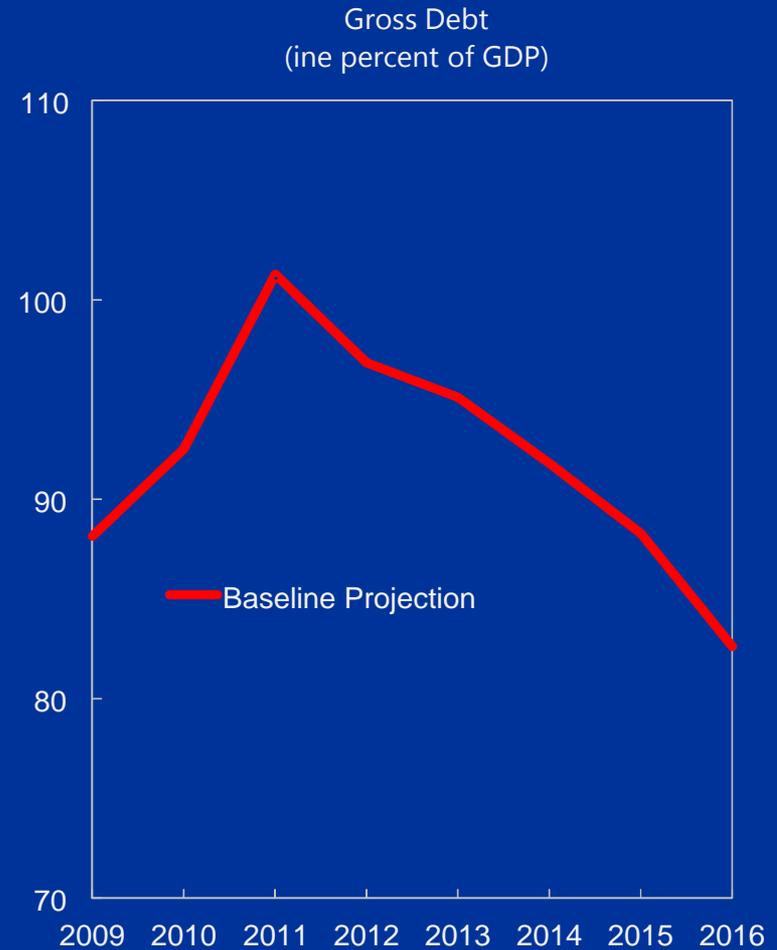
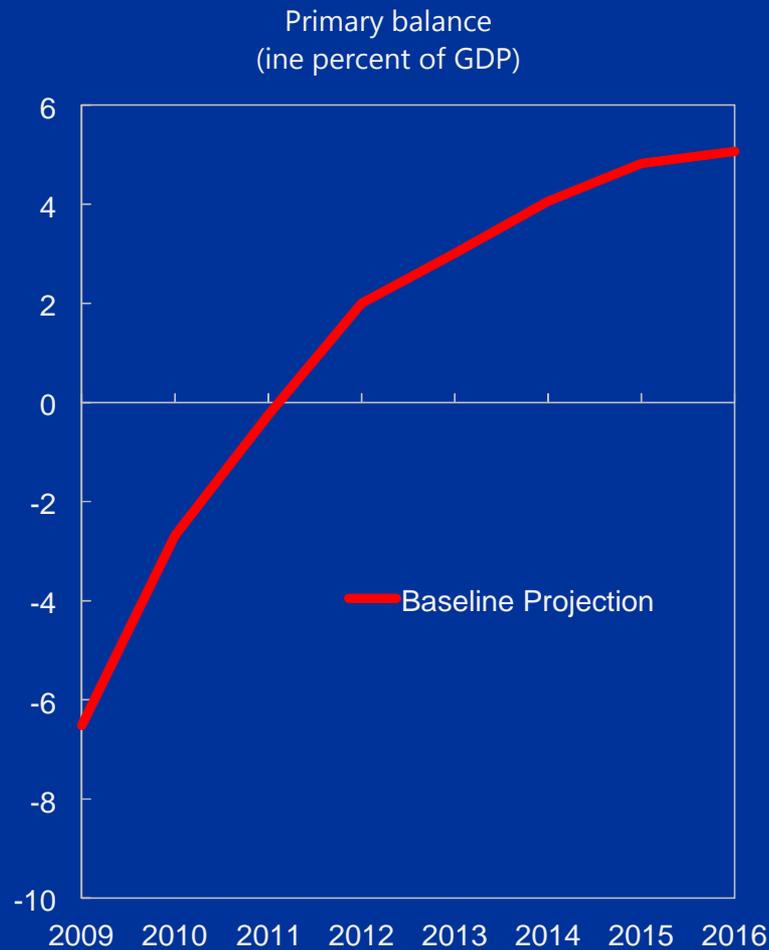
Monetary policy framework

Iceland: Gross Foreign Assets of the Central Bank (in USD billions)



Reduce Public Debt

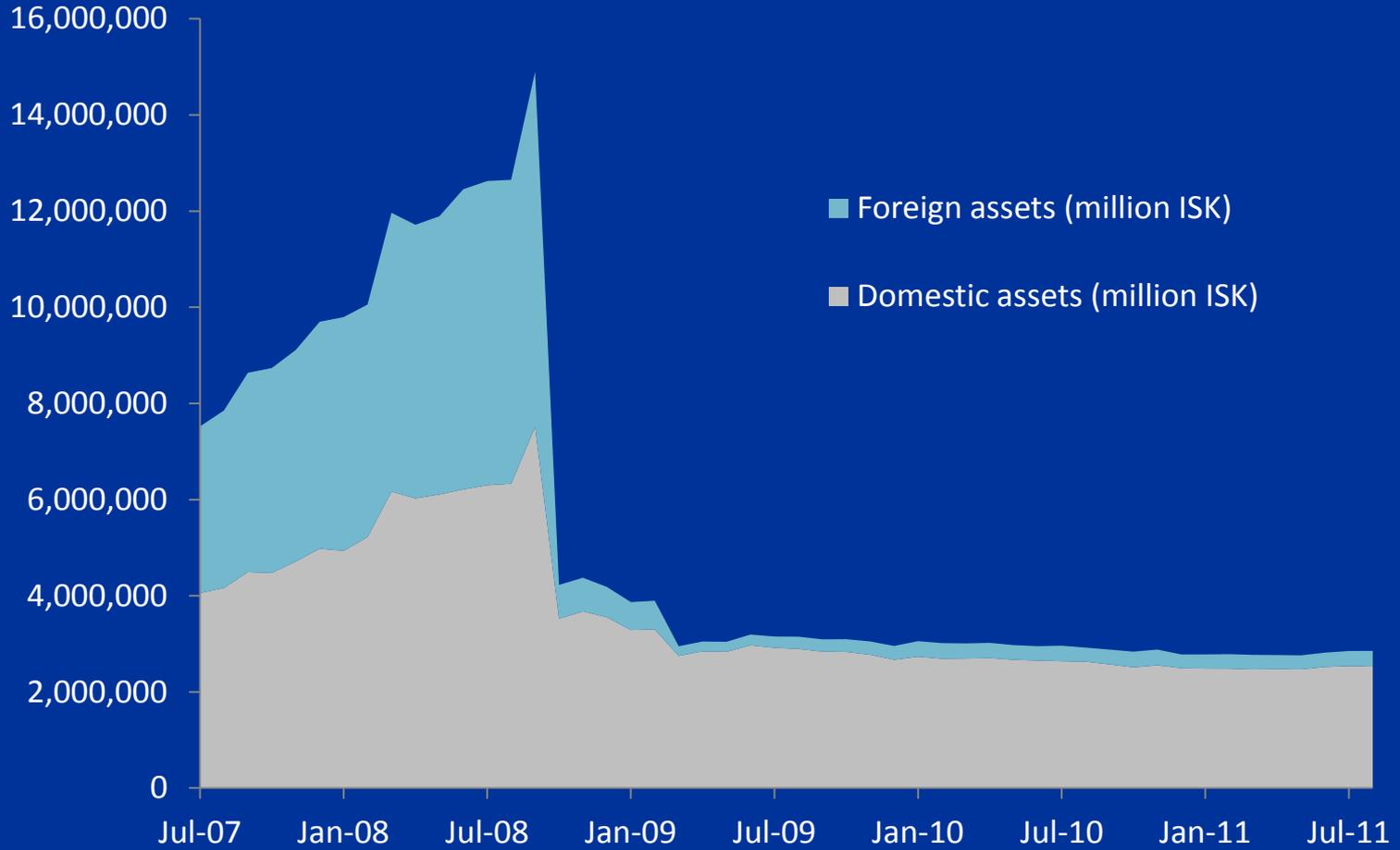
- Continue with fiscal consolidation: very difficult, no easy measures left



Financial Sector Reforms

- Size of banking system reduced dramatically (200% of GDP now; 1000% of GDP pre-crisis)
- Fill remaining gaps in supervision and regulation
- Reduce NPLs
- Reduce other financial imbalances

Domestic and foreign assets of deposit money banks



Private Sector Debt Restructuring

- Complete HH and corporate debt restructuring
 - New framework for restructuring in place
 - Pace of restructuring finally picking up
- Key objective
 - Ensure that restructuring is sufficient to reduce over-indebtedness

Thank You!