

Reykjavik 30.11 2009

Mr. Dominique Strauss Kahn  
Managing Director  
The International Monetary Fund  
Washington, D.C., 20431  
U.S.A.

Dear Mr. Strauss Kahn:

We thank you for your reply to our letter dated 12.11.2009

We would like to state that we are fully aware that the involvement of outside experts in Iceland's domestic matters was inevitable at the time, both because of the scope of Iceland's crisis and because Iceland's officials apparently did not fully understand the gravity of the situation. In our view the economic woe facing the Icelandic nation manifests the incompetence of Iceland's government and banking sector.

Regarding your response on the Icesave dispute, we would like to state the following.

The IMF's will on the matter is clearly stated in paragraph 9 of the letter of intent, made with the Icelandic government in October 2008. It clearly states that the Icelandic government is obligated to negotiate with the British and the Dutch on their terms only, leaving Iceland almost in a hopeless situation. By doing this the IMF has intervened in a dispute between two sovereign states. The same paragraph demands Iceland's reimbursement of pre-financing of Icesave by the British and the Dutch authorities. This pre-financing was unilateral on behalf of Britain and the Netherlands without any prior consent on behalf of Iceland. Furthermore it is our view that the Icesave "agreement" forces Iceland to breach a ground rule of the EEA which states that: *In order to avoid distortions of competition, public credit institutions must not include in their own funds guarantees granted them by the Member States or local authorities* (1 & 2)

At last the letter of intent states in paragraph 24 that loan agreements with the Nordic countries are scheduled, so we cannot but conclude that the terms about how to solve Icesave must have been in the original agreement with IMF. The Nordic countries did thus merely follow the terms already agreed by the IMF with the Icelandic government in October 2008.

Your reply to us stirred up some debate in Iceland and Norway about Iceland and its matters with IMF. The Icelandic Trade and Economics Minister said that you had *"...skated lightly over the connection between IMF and Icesave"* (3)

The Permanent Secretary of the Norwegian Finance Ministry went as far as stating that you have somehow misinterpreted the part that Norway has played in any delays regarding their view of Iceland's IMF program. (4) The Norwegians point out that the Board of the IMF was following the will of the Dutch and the British in this matter. (5)

We want to make it clear that we consider the responsibility of the Icelandic authorities and banking sector severe and we certainly do not intend to run away from our rightful responsibilities as a nation. Experts have stated that there remains a legal doubt about the rightfulness of British and Dutch claims in the Icesave matter.

Our greatest concern is the unbearable debt which Iceland must carry under the IMF program.

We are concerned that Iceland will not be able to maintain a western, Nordic, welfare society while keeping up payments plus interests of the loans associated with the IMF program. Our evaluation is supported by several respected experts, some of whom are former employees of the IMF. The fact that the IMF does not want to acknowledge this, or offer convincing evidence that the debt is manageable, concerns us even more.

In October 2008 IMF estimated that Iceland could manage external debt up to 240 % GPD. Today your estimate is that Iceland can manage debt up to 310 % GPD. What changed? It is estimated that the debt of Iceland will possibly exceed 400 % of GPD next year if the emergency law is challenged in court. Will the IMF then conclude that we can manage 400 % of GPD or will the estimate go even higher if it suits future plans?

Many questions arise when viewing future plans made by IMF and Icelandic officials regarding the trade balance (*figure1*). How can it be that the projected turnaround in trade balance is in no proportion with our past experience, neither short nor long term? Is one of IMF's solutions for this going to be heavy restrictions on imports of merchandise?

It now appears that the interest expense will be 35 % of Iceland's state revenues. The Treasury will be paying 25% of its income as interest on loans (*figure2*). Billions of krona in unpaid interest on foreign loans will accumulate. If this happens tax increases and expenditure cutbacks will drain the energy out of Iceland's economy. This dictates worsening living condition and exodus. As we are writing this letter, 14 people a day are leaving the country for Norway. This is equivalent of 2800 Frenchmen leaving France every single day. The mismanagement and incompetence of Iceland's authorities and banking sector do not justify the methods the IMF is implementing in Iceland.

There must be some limits as to how heavy a burden a nation is supposed to shoulder due to criminal incompetence of government, speculators, and big business.

The turn of events in recent months have demonstrated that a lack of fact based information is a serious problem in Iceland. This includes lack of truthful estimates on the status of the IMF program and other relevant matters at any given time. Furthermore, future plans are not presented and debated.

Despite various meetings with Mr. Rozwadowski, by many groups, we do not consider his answers sufficient. As there is growing tension amongst the nation and demands for straight answers is growing louder. We would like to reaffirm our invitation to you to meet with us here in Iceland. Alternatively we are prepared to come and meet with you in Washington or elsewhere. We trust that you understand that the matter is very urgent.

#### References.

- 1) DIRECTIVE 2000/12/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
- 2) **Directive 94/19/EC of the European Parliament**
- 3) <http://www.althingi.is/altext/raeda/138/rad20091116T153314.html>
- 4) <http://www.stortinget.no/no/Saker-og-publikasjoner/Publikasjoner/Referater/Europautvalget/2009-2010/091021/>
- 5) <http://www.stortinget.no/no/Saker-og-publikasjoner/Publikasjoner/Referater/Stortinget/2009-2010/091119/>

Figure 1.

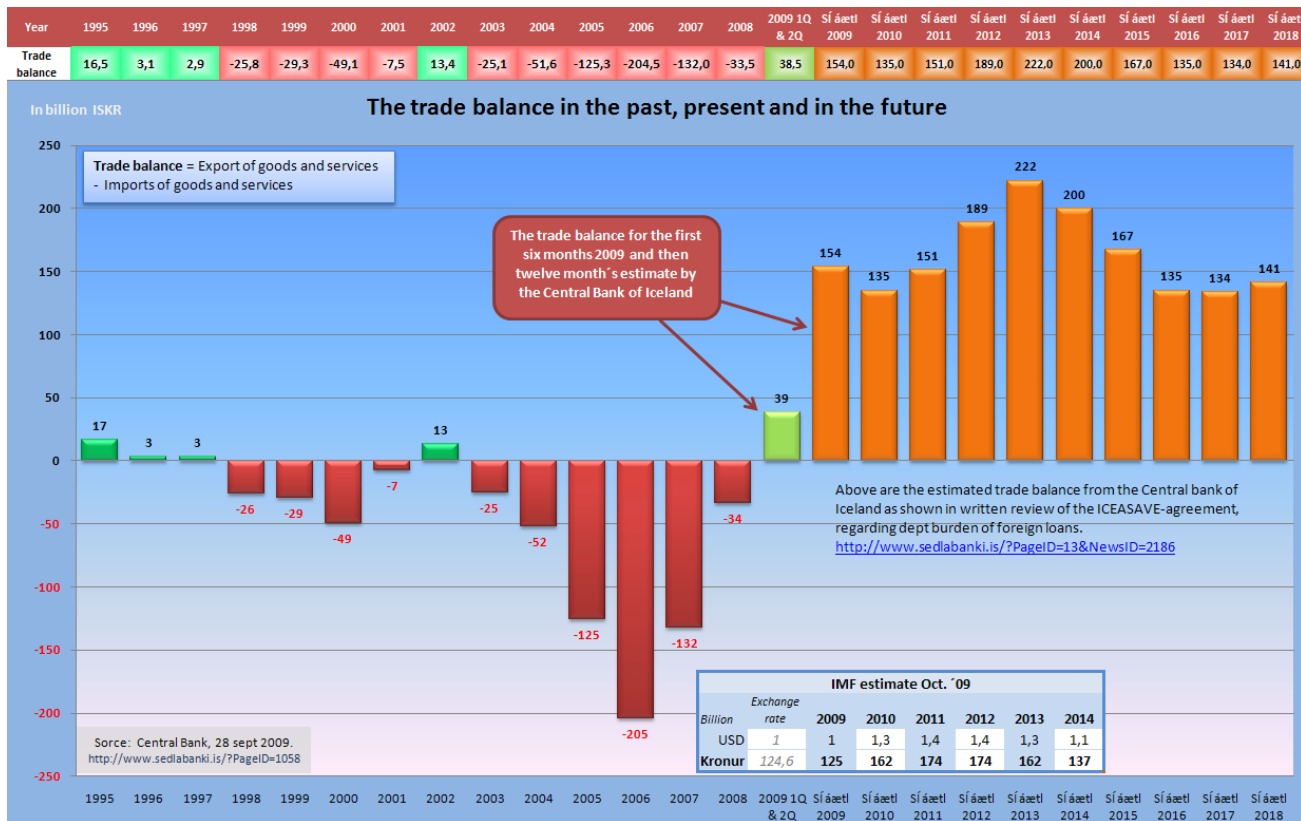


Figure 2.

