

**IMMEDIATE  
ATTENTION**

EBD/13/11

March 12, 2013

To: Members of the Executive Board

From: The Secretary

Subject: **Iceland—Request for Approval of Exchange Measures Subject to Article VIII, Section 2(a)**

Attached for the consideration of Executive Directors is a request for approval of exchange measures subject to Article VIII, Section 2(a) for Iceland.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by **noon on Tuesday, March 19, 2013**. In the absence of such a request, the draft decision that appears on page 3 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Questions may be referred to Ms. Zakharova (ext. 37166) and Mr. Gregory (ext. 36585) in EUR.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:  
Department Heads



INTERNATIONAL MONETARY FUND

ICELAND

**Request for Approval of Exchange Measures Subject to Article VIII, Section 2(a)**

Prepared by the European Department  
(In Consultation with Other Departments)

Approved by Ajai Chopra and James Roaf

March 11, 2013

1. **Iceland requests that the Executive Board approve three measures that give rise to exchange restrictions subject to Fund jurisdiction under Article VIII, Section 2(a).**<sup>1</sup>

**I. BACKGROUND**

2. **Effective enforcement of capital controls remains essential in Iceland.** The capital controls, introduced at the height of the 2008 crisis, have helped to avoid a sharp depreciation of the krona, which would have destabilized the balance of payments and the financial system. The authorities remain committed to lifting the controls as soon as macroeconomic and financial conditions permit. However, the still-large stock of offshore krona and the legacy vulnerabilities in the financial sector argue for a gradual, conditions-based approach to lifting the controls to avoid disrupting the exchange rate and destabilizing the balance of payments.<sup>2</sup>

---

<sup>1</sup> The retention of the three exchange restrictions has been previously approved by the Executive Board until April 5, 2013 (Decision No. 15133-(12/35), adopted April 6, 2012).

<sup>2</sup> It is expected that the 2013 Article IV consultation discussions will be held in May-June 2013.

## II. THE EXCHANGE RESTRICTIONS

3. **While most current payments are transferrable from Iceland, the capital controls regime gives rise to exchange restrictions subject to Fund jurisdiction.** The capital controls regime affects the conversion and transfer of three components of current payments as defined by the IMF: (i) interest on bonds (the transfer of which the foreign exchange rules apportion depending on the period of the holding); (ii) the principal payments from holdings of amortizing bonds; and (iii) payments on the indexation of principal from holdings of amortizing bonds.

## III. STAFF RECOMMENDATION

4. **Staff recommends that the Executive Board approve the retention of the three exchange restrictions for a period of twelve months from the date of this decision.** The exchange restrictions have been imposed for balance of payments purposes, are non-discriminatory, and temporary.

**PROPOSED DECISION**

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. Iceland maintains three exchange restrictions subject to Fund jurisdiction under Article VIII, Section 2(a) of the Fund's Articles of Agreement arising from the rules governing Iceland's capital controls regime that restrict the conversion and transfer of (i) interest on bonds whose transfer the rules apportion depending on the period of the holding, (ii) amortized principal on bonds, and (iii) the indexed portion of the principal on bonds.
  
2. In the circumstances of Iceland, the Fund grants approval of the retention of these exchange restrictions for a period of twelve months from the date of this decision.