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Iceland set to reveal \$6bn IMF-led rescue plan following collapse of its banking system

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ICELAND IS poised to announce a \$6 billion International Monetary Fund-led rescue package, backed with co-ordinated action from other central banks, to help stabilise its economy after its banking system collapsed this month.

People with knowledge of the talks between Iceland and the IMF said the international organisation was expected to contribute just in excess of \$1 billion (€750 million), with central banks from the Nordic region and Japan contributing the rest of the money.



The proposed IMF package represents a significant breakthrough for Iceland in its attempts to stabilise its economy.

The small, north Atlantic country was finding difficulty in obtaining any significant international backing before it secured this "seal of approval" from the organisation, according to negotiators.

People close to the talks said the IMF had not attached any punitive conditions on Iceland as part of its rescue package.

"It is not demanding any fundamental changes to the social infrastructure," said one person. "They say they have learnt from South Korea and they don't want to exacerbate any sharp downturn."

It is considered doubtful whether Russia will participate in the rescue plan after talks between the two countries over a possible \$4 billion loan last week ended with no agreement.

The agreement could be announced today once Iceland has sent the IMF an official invitation for assistance. The prime minister's office in Reykjavik declined to comment.

An IMF agreement to provide support has been a condition for the Bank of Japan and other Nordic central banks to help, people close to the talks said. Nordic central banks declined to comment on the proposed package yesterday. The Bank of Japan could not be reached for comment.

According to negotiators, on the Icelandic side, discussions between Iceland and the IMF on the conditions to be attached to the package focused on three areas: the banking sector, fiscal policy and monetary policy, and the exchange rate.

On banking, the IMF sought assurances on the restructuring of the sector and has demanded a review of the country's banking legislation to ensure that it conforms with international best practice.

Crucially, however, the IMF is not insisting on the privatisation of Iceland's huge Housing Financing Fund, a state-backed mortgage lender.

The IMF has also placed no deadlines on when the Icelandic state must privatise the country's three largest banks - Kaupthing, Landsbanki and Glitnir - which it has nationalised. -
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