

The Policy Declaration of the Government of the Social Democratic Alliance and the Left-Green Movement

This Government constituted by the Social Democratic Alliance and the Left-Green Movement has emerged under extremely difficult circumstances in Icelandic society. This Government has been formed to assure the country an effective administration to carry out urgent and important measures, particularly for the benefit of households and business, for rebuilding the banking system, in the field of administrative reform and to carry out measures in favour of increased democracy and an open and honest society.

The Government inherits enormous difficulties due to the banking and systemic collapse, as well as considerable and rapidly increasing foreign debts and liabilities of the national economy. The Government will base itself on a very prudent and responsible policy in economic and fiscal matters but will, at the same time, prioritise social values, the principles of sustainable development, women's rights, equality and justice.

The parties making up the Government agree on the importance of holding elections as soon as circumstances allow so that, following them, a Government can be formed on the basis of a renewed mandate from the nation.

The Progressive Party will defend the Government in the event of motions of no-confidence. Consultations have also been held with the Chairman of the Liberal Party during the negotiations on forming a government.

I. Increased democracy, equality and information

The new Government places particular emphasis on proactively keeping the Icelandic public informed on the state of national affairs and measures aimed at rebalancing the economy, following the shocks which have pounded the country's financial system.

The new Government will seek extensive consultation with municipalities, social partners and the public.

Ministers and senior officials in the administration will operate according to new ethical standards and will make public any financial obligations or personal interests.

The Pensions Act will be rescinded and Members of the Althingi and Ministers will be subject to the same general provisions as apply to the pensions of civil servants.

Preparations will be begun for the institution of new rules on the appointment of judges to the High Court and District Courts.

A review will be launched of the legislation on ministerial accountability.

Amendments will be made in regard to the following issues in the Icelandic Constitution:

- a) Reference will be made to natural resources owned by the nation.
- b) Provision will be made for national referendums.

c) The process for amending the Constitution by special referendum.

Legislation will be enacted on the composition and tasks of a constitutional council.

The electoral legislation will be amended to allow for the possibility of voting for individual candidates in elections to the Althingi.

II. Rebuilding the economy

The economic policy of the Government will be based on the programme already established by the authorities and the IMF. Emphasis will be placed on providing further information to the public about the programme. The progress of the programme will be discussed with the representatives of the IMF and targeted measures will be explored for reducing interest rates as rapidly as possible, and a schedule will be established for the relaxation of currency restrictions.

The Government will conduct a prudent fiscal policy under which the fundamentals of the welfare system will be protected, as well as basic services to the community, while at the same time it will aim at balancing state expenditure and income.

III. Restructuring of the administration.

Structural changes will be made to the administrative system to ensure more effective implementation of the authorities' economic measures and to renew trust in the country's financial system.

The Board of Governors of the Central Bank of Iceland will be replaced and the legislation on the Central Bank amended to the effect that the Central Bank will have one Governor appointed on the basis of professional competence. A Monetary Policy Commission will be established which will take decisions on the application of the Bank's instruments, i.e. policy rate, legal reserve requirement and rules on cash reserves. A review of the Central Bank's monetary policy will be launched.

A new Board of the Financial Supervisory Authority will be appointed and changes will be made to the senior administration of certain ministries. Foreign experts will be recruited to assist the Financial Supervisory Authority.

The feasibility and methodology will be explored for reinforcing legislation so that assets can be frozen if this is necessary to ensure the national interest, subject to the provisions of the Constitution.

IV. Measures in favour of households.

The Government will take targeted measures to address the financial problems faced by households in the country in active consultation with stakeholders. A welfare watch will be established in cooperation with the national administration, municipalities, social partners and others, which will monitor the social consequences of the banking collapse and make proposals for measures to address them.

The Government will present a bill to the Althingi in February on mortgage payment adjustment, regularisation of foreign-currency related loans and the postponement of forced sales of residential accommodation for up to six months while attempts are made to assure accommodation for the future. The legislation on bankruptcy will be amended in order to improve the position of debtors.

Housing loans held by the old commercial banks will be transferred to the Housing Financing Fund (HFF) or other means will be found to ensure that the HFF's solutions to repayment difficulties are applied fully for mortgaged loans of individuals with loans with state banks.

In addition, a long-term programme for further addressing the indebtedness of households will be presented at the end of March. This programme will include an assessment of the position of the various income and age groups, proposals for financing, and assessment of the cost to the treasury and the implications for financial stability.

Legislation will be enacted on savings funds which will permit savers temporarily to receive an advance from the fund to address urgent financial problems.

V. Measures in favour of business.

The Government will review the project plans of public entities with the aim of favouring projects which benefit the economy as a whole and which require large work forces. A schedule for public works for the year and invitations to tender will be publicised. No new plans for aluminium plants will figure in the Government's programme.

The Housing Financing Fund's authority for providing loans for repair work to residential accommodation will be extended and full reimbursement of VAT will be introduced for such repair work.

A special emergency project will be launched with powerful employment market measures to counteract unemployment.

Ways will be explored to stimulate investment by domestic and foreign parties and to stimulate the creation of new jobs in the private employment market.

The rules of LÍN (Student Loan Fund) on student loans need to be adapted to the changed economic environment so that the unemployed can build up their knowledge and skills by following courses which qualify for loans, instead of receiving unemployment benefit.

The legislation on the Institute of Regional Development (Byggðastofnun) needs to be amended including with regard to its capital base, in order to increase the Institute's ability to provide loans.

The Ministry of Social Affairs and Social Security will be tasked with assessing particularly the impact of the economic situation on the position of the sexes. The Government is determined that gender equality will be a guiding principle in the

resurrection of the Icelandic economy and the establishment of professional methods of governance.

VI. Measures to rebuild the financial system and address the problems of companies

The Government will ensure that financial institutions work surely and rapidly to address the problems of viable companies on the basis of transparent and internationally recognised rules. Fairness and equal opportunity will be assured in services to companies and care will be taken to maintain active competition.

The valuation of the assets of the new state banks will be completed urgently and in conjunction with their refinancing. The uncertainty hampering the operation of the banks, related to such matters as agreements with foreign and domestic creditors, including claims due to deposit guarantees, must be lifted.

The Government will set loan targets for the new banks for the year 2009 in order to stimulate the economy.

VII. International agreements and European cooperation

An overview will be compiled of loans and overall liabilities of the national economy and this will be communicated to the public.

International experts will be appointed to provide assistance with international agreements on the nation's debts, in consultation with the Government. This includes international agreements on deposit guarantees, relations with foreign creditors of the Icelandic banks and various questions which relate to the rebuilding of the banks.

The Committee on Europe will be mandated to complete its work on the analysis of the attitudes of interest groups to the European Union. The Committee will deliver a report on 15 April 2009 which will include an assessment of the position and prospects of Iceland for cooperation with European nations and future options in currency matters. The parties forming the Government agree that membership of the European Union will never be decided upon without a national referendum.