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USD LOAN OR CURRENCY SWAP
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SIPDIS

STATE FOR EUR/F0 A/S Dan Fried

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Classified By: Economic Section Chief Fiona Evans for reasons 1.4 (b)

and (d).

1. (C) On October 24, the Central Bank sent a letter to the New York Federal Reserve Bank requesting a one billion USD loan or currency swap. The Embassy requested and today received a copy of the letter, which was addressed to Timothy Geithner, President of the Bank. In a cover memo dated October 28, the Central Bank emphasized to the Embassy the importance of a medium term loan or currency swap arrangements.

2. (C) Although aware of existence of the letter, the Ministry for Foreign Affairs had not received a copy as of this morning and was



uncertain as to its contents. Benedikt Jonsson, Acting Permanent Secretary, told the Ambassador that the MFA was sensitive about making sure the correct USG authorities received the Icelandic request. Jonsson told the Ambassador to expect a request from the GOI for a loan "through proper channels", perhaps as early as this afternoon.

3. (C) Comment: The Government of Iceland is obviously struggling with problems of coordination and turf in dealing with the financial crisis. Away for the first couple of weeks of the turmoil (due to brain surgery), the Foreign Minister is attempting to reassert her normal role in foreign affairs. The Central Bank, however, is guarding its perceived prerogatives closely--and, judging from the events of the last few weeks, unwisely. End Comment.

4. (U) Begin Text of memo to Embassy:

Please find attached the letter with Chairman David Oddsson sent to President Geithner of the Federal Reserve Bank of New York last Friday. Please take note that even though the letter emphasizes the importance of a medium term loan, a swap arrangement could serve the same purpose, not least if there is understanding that it would be rolled over for a period of time that would be commensurate with the financing of the economic program of the Government.

End Text.

5. (U) Begin Text of letter to Federal Reserve:

October 24

Mr. Timothy F. Geithner, President
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045
USA

Dear Tim,

Friday afternoon, October 24, 2008, the Government of Iceland announced that an agreement had been reached with the International Monetary Fund on a stand-by arrangement subject to IMF Executive Board approval which could take place early in the week of November 3, 2008. The details of the program will remain confidential until late next week. For the program to succeed, financing beyond that provided by the IMF will be necessary.

I refer to the discussions which we had towards the end of September on our request for a currency swap arrangement between the Central Bank of Iceland and the US Federal Reserve. I also refer to the discussions which we had earlier in the year on the same subject. As you explained to us, the main reasons for the Federal Reserve not wishing to enter into a swap arrangement with the Central Bank of Iceland were the relative size of the Icelandic banking system and



then in September discussions the absence of an IMF arrangement. As you are no doubt well aware of, the Icelandic banking system has now shrunk significantly. Additionally, as mentioned at the outset, the Government has announced an agreement with the IMF on a standby arrangement. For it to succeed, financing beyond that provided by the IMF will be necessary.

I hereby request participation from the Federal Reserve Bank in the financing of the economic program. Swap liens are short term in nature, but we need a financing commitment over a longer term horizon. Because of this, the Central Bank ideally needs a loan from the Federal Reserve of a medium term maturity, preferably in an amount of 1 billion USD. We are also seeking financing from other sources.

I look forward to your prompt and favourable consideration of our request. As always, I stand ready to provide additional information as needed. Attached for your information is today's press release issued by the Government.

Yours sincerely

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Central Bank of Iceland
David Oddsson,
Governor and Chairman of the Board of Governors

End Text.

VAN VOORST