

Surviving the Perfect Storm

Iceland's Journey

Árni Páll Árnason
Minister of Economic Affairs



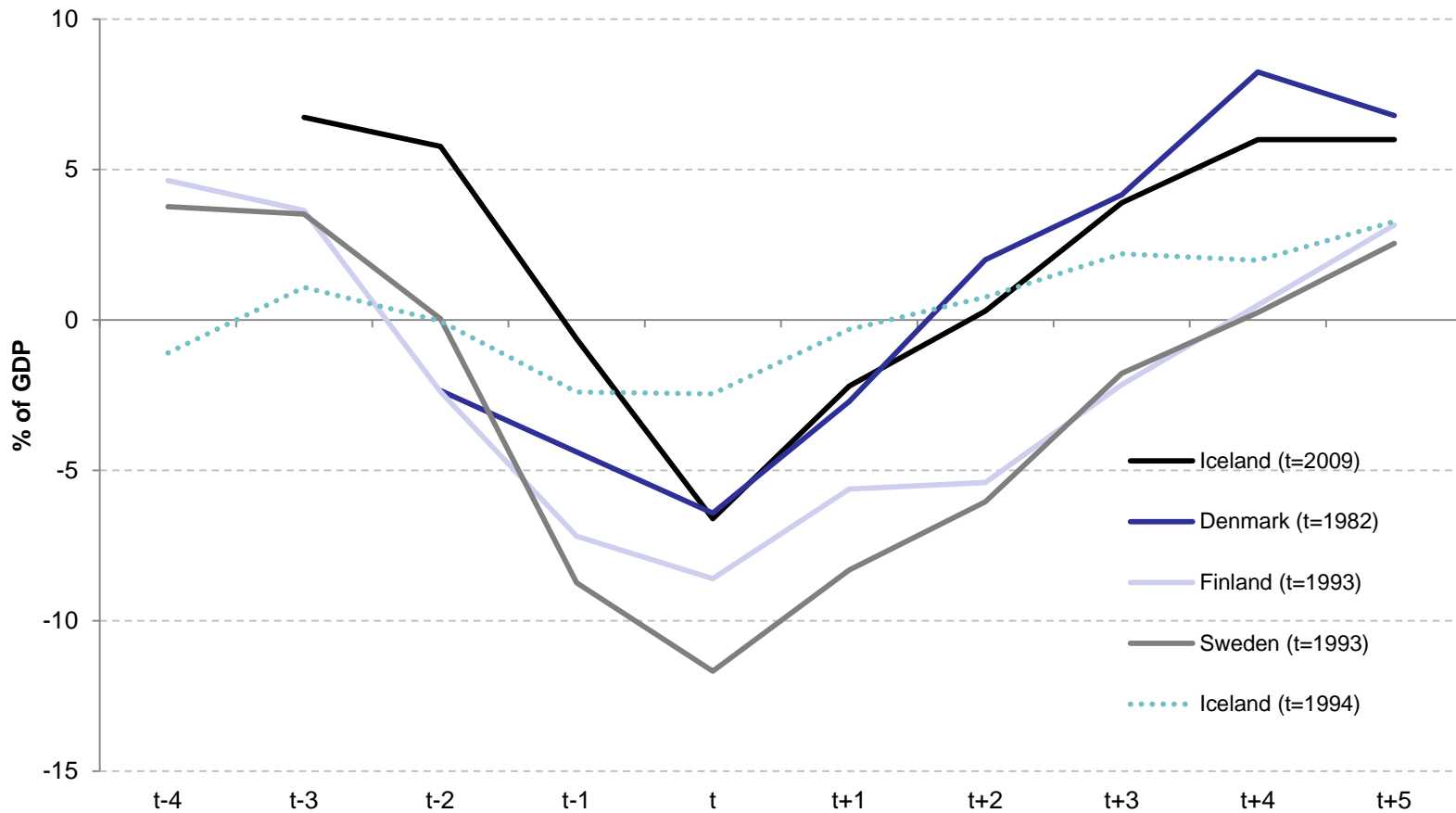
Iceland's Perfect Storm

- A threefold crisis in one
 - Banking crisis
 - Currency crisis
 - Unavoidable downturn following overheating



A Nordic Adjustment

General Government primary balance



Weathering the Perfect Storm

“It is logical for national governments to take the lead in saving their own banks. After all, a collapse might threaten at 2 am, and no minister would want to “wake up” his 26 EU counterparts to debate a rescue with them”.

Prime Minister François Fillon, October 2008



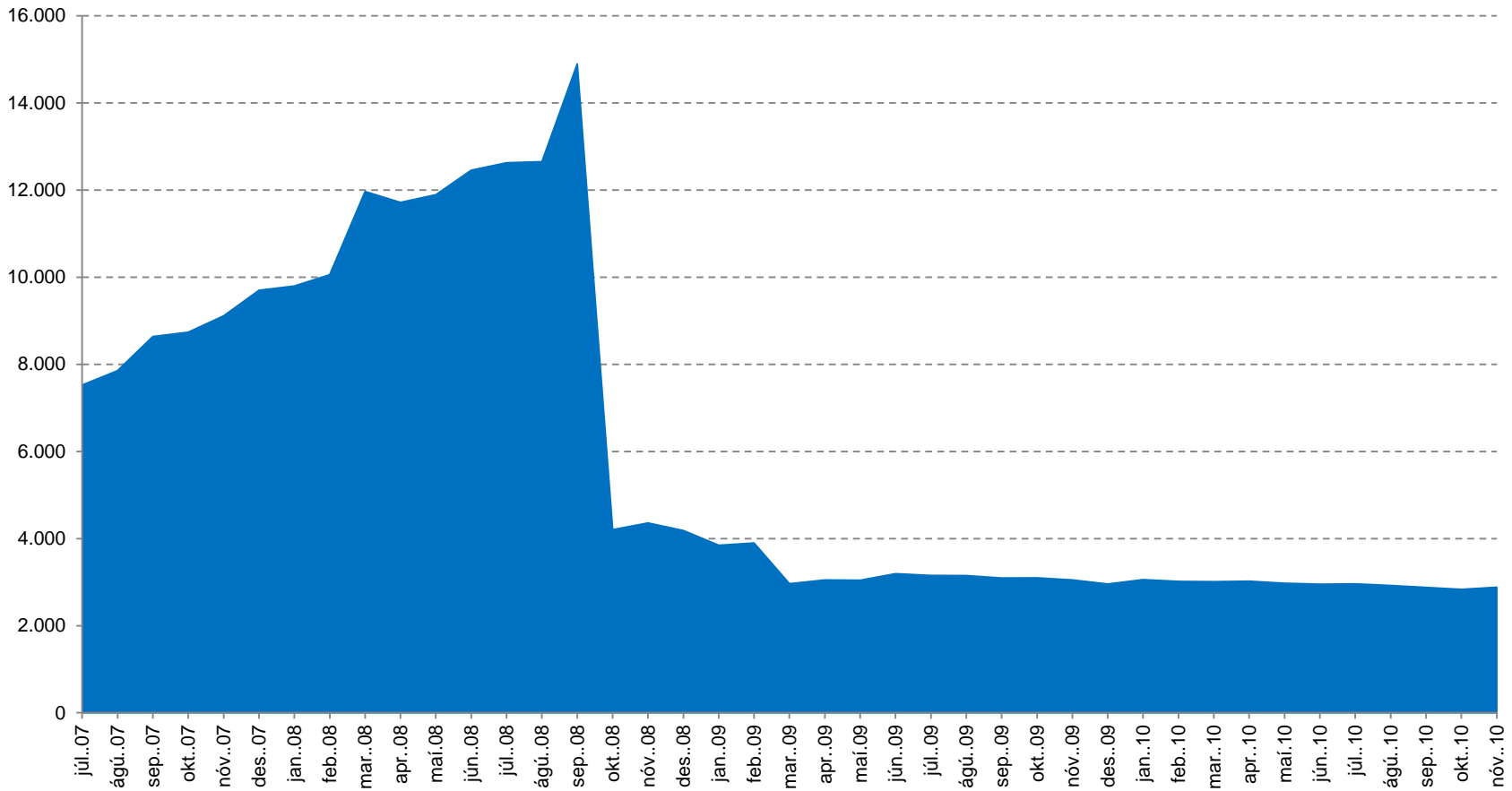
The Emergency Legislation

- New banks established
- Domestic assets and liabilities moved into the new banks and refinanced by the Government
- All claims of deposits have priority status in bankruptcy proceedings



Restructured Financial System

Banking sector, total assets, b.ISK



Banking sector

- Three new banks established on the ruins of the three fallen banks - all capitalized with strong capital ratios - Creditors majority owners in two of them
- Reform of financial supervision
- Further rationalisation and restructuring in progress
 - downsizing
 - reduce further incentives for risky behaviour



Restrictions on capital account

- Proposed by the IMF in November 2008 to stabilise the ISK
- The situation has since drastically changed:
 - Inflation down from 19% to 5%
 - Interest rates down from 18% to around 4.5%
 - Widespread understanding of the necessity of emergency measures
 - Liberalisation strategy implemented



The need for private sector debt restructuring

- Corporate and household balance sheets heavily impaired:
 - The ISK dropped by 50%
 - More than 30% rise in consumer prices
 - Equity of Icelandic companies in 2008 only 20% of that in 2007

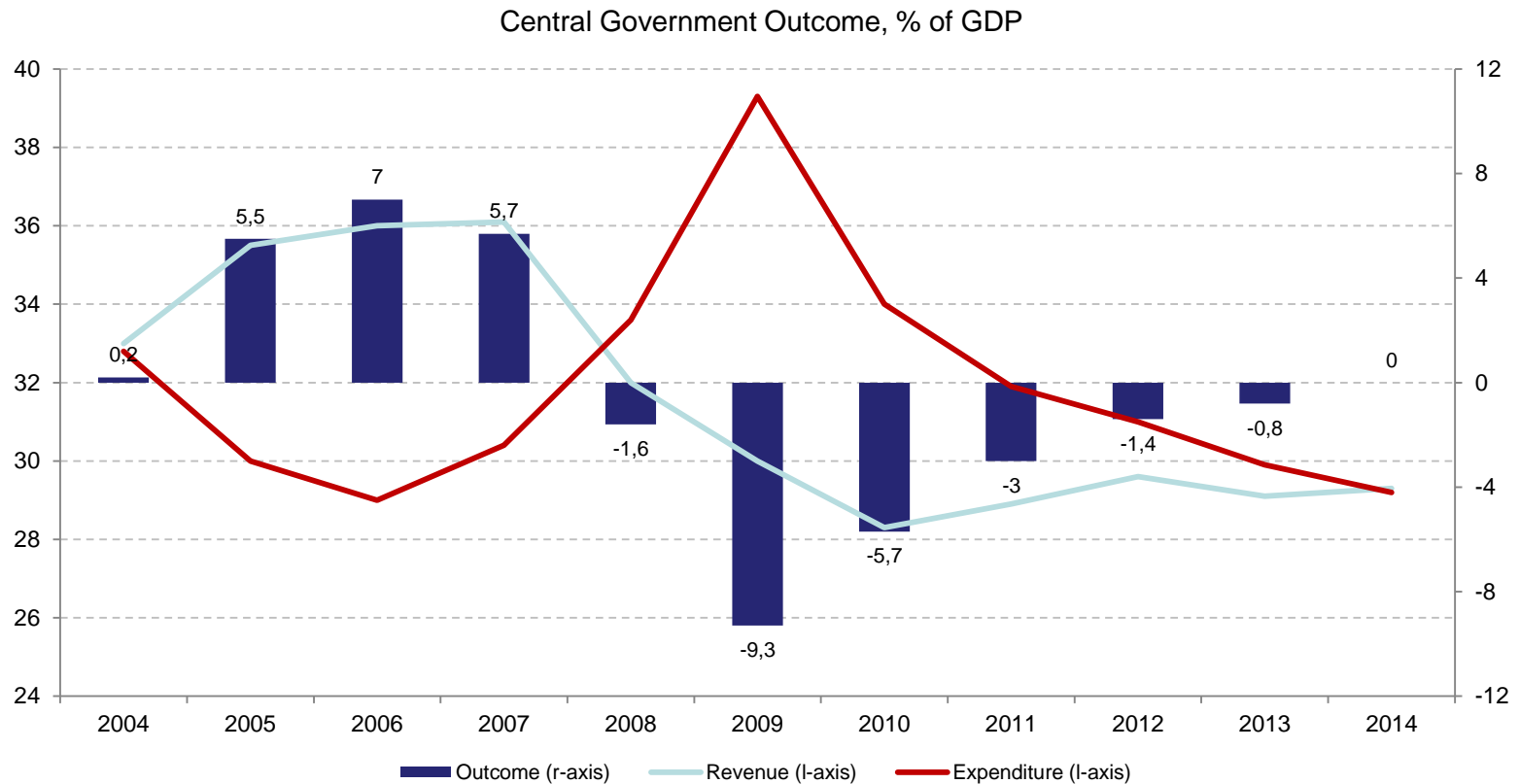


Progress in debt restructuring

- Corporate debt restructuring a priority
 - fully refinanced banks able to deal with the problem
- SME debt restructuring initiative
 - all viable SMEs have received an offer
- All corporate debt restructuring offers should be made before end of year 2011
- Government action essential
 - “Owner of last resort”



Successful austerity measures



A European Solution

- The IMF Plan - a positive experience
 - Successful completion in August 2011
- Domestic economic co-ordination
- Accession process



1 billion \$ bond sale early summer

....“Iceland doesn’t have a lot of private debt anymore and has done a lot on the fiscal side,....”

....“The Icelandic fundamentals on the debt side now are actually quite strong. That’s a fact.”

....“If you look at the pricing of Iceland’s bonds and compare it to other European countries with similar debt levels as Iceland, to me the yield on the bonds looks pretty attractive.”

*Lars Christensen, chief analyst at Danske Bank A/S in Copenhagen,
in an interview with Bloomberg 10 June 2011*



Iceland's IMF programme

“Iceland has successfully completed its Fund-supported program. Key objectives have been met: public finances are on a sustainable path, the exchange rate has stabilized, and the financial sector has been restructured. Strong policy implementation has underpinned this success.”

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IMF Deputy Managing Director, Nemat Shafiq



Open for business

- Seek responsible investors
- Strong infrastructure
- Rule of law



The way ahead

