

ICELAND'S RECOVERY

International Conference

Reykjavik, October 27, 201

Welcoming remarks

The Prime Minister of Iceland, Ms. Jóhanna Sigurðardóttir

President of Iceland, distinguished guests.

On behalf of the Icelandic government, I am pleased to welcome you to the conference *Iceland's Recovery – Lessons and Challenges*. And to the participants from abroad; Welcome to Iceland.

The topics of this conference are lessons and challenges. There can be no doubt that Iceland learned its lesson the hard way. The most important lessons for the nation, in my opinion, is to be wary of unfettered capitalism and of the financialization of society - an evidenced-based formulae for large scale economic collapses.

Iceland was hit by a perfect storm in October 2008 and was the first among advanced countries to fall prey to the global financial crisis.

We took an unorthodox course of action. Instead of pledging all our resource to save the inflated banking sector, we placed our main banks into receivership. Domestic deposits and assets were transferred into new banks.

In effect thus the lion share of the banking collapse was borne by foreign creditors. There was no other way, there was no other option, considering that the bank's assets were ten times Iceland's GDP.

Subsequently, tight capital controls were imposed. The IMF was brought in, truly not an easy thing for an advanced country at that time, yet a sensible way forward as experience has proven.

A Stand-by-agreement was signed on November 19 2008. Now, three years later, Iceland “graduated” from the IMF programme - so to speak – and with distinction, I might add.

The programme was on the whole beneficial and the cooperation with the fund has been fruitful. The main benefits were threefold.

Firstly, the less travelled Icelandic route gained credibility in the eyes of the world through the cooperation with the fund.

Secondly, the programme imposed discipline on the conduct of economic policy. Last but not least, the loan facilities saved us from defaulting.

So where are we now after graduation from the IMF? Are all our worries behind us? Unfortunately no.

However, we have come a long way and the recovery is gaining momentum, with public finance on a sustainable path, with economic growth no longer in the red and with job creation in excess of job destruction. But challenges remain.

The currency is still fettered in capital controls and we need more investment to fuel economic growth. Unemployment at around 6-7% is still far too high by our standards and well in excess of what we can tolerate.

Debt restructuring of households and corporation must be enhanced. We are laying down new ground rules, as regards post-programme general economic policy, as regards framework for monetary and exchange rate policy, for fiscal policy and industrial policy.

In this respect one should add that Iceland applied to join the European Union, in July 2009 and formal negotiations began this summer.

The greatest challenge ahead lies, however, not in the economic sphere; That challenge is to bring about a national reconciliation. On the one hand, we need to bring to a close the wide ranging criminal investigation that is being conducted against reckless financiers.

On the other hand, we need to heal the wounds that the collapse inflicted. We need to restore trust in the society and we need to regain the communal purpose that was swept away by the collapse.

Ladies and gentlemen

Around the globe, the financial crisis has left scars. A deep rift has opened between the general public and the financial sector. These wounds have to be healed in an orderly manner. These are truly challenges facing the international community at large, and the international financial world in particular.

The lessons to be drawn from the Icelandic experience are important and can be of significance for individual countries and to the International Monetary fund. It is of course a great pleasure that so many distinguished guests honour us with their presence here today and I am certain that this conference will be a success.

I want to express my gratitude to all those who have arranged this conference. I would like to conclude my welcoming remarks by thanking the IMF staff, in Washington and Reykjavik for their valued contribution to the economic recovery of Iceland.