

A Song of Ice and Ire: Iceland in context

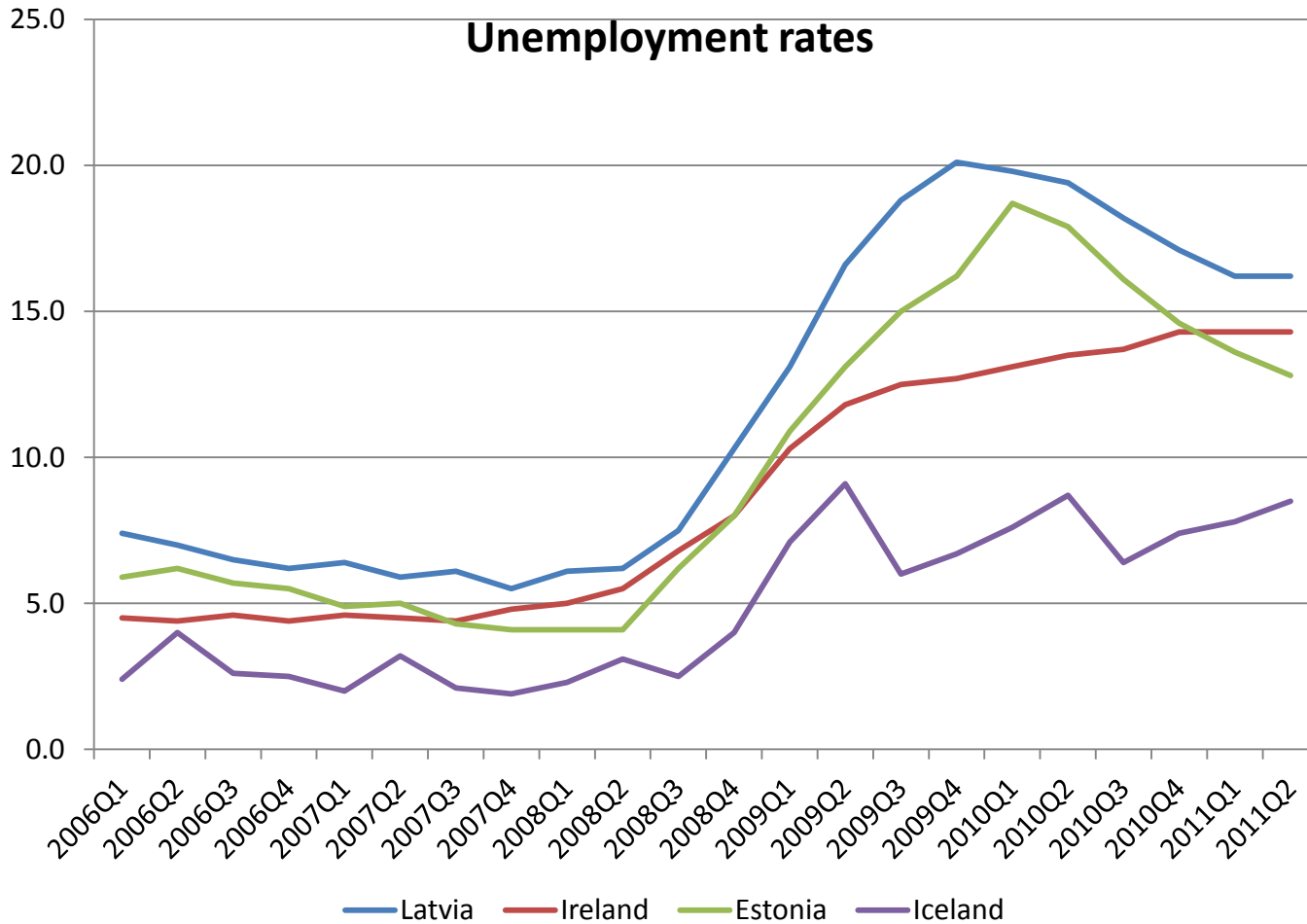
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For presentation 27/10/11

Why the rest of us pay attention to Iceland:

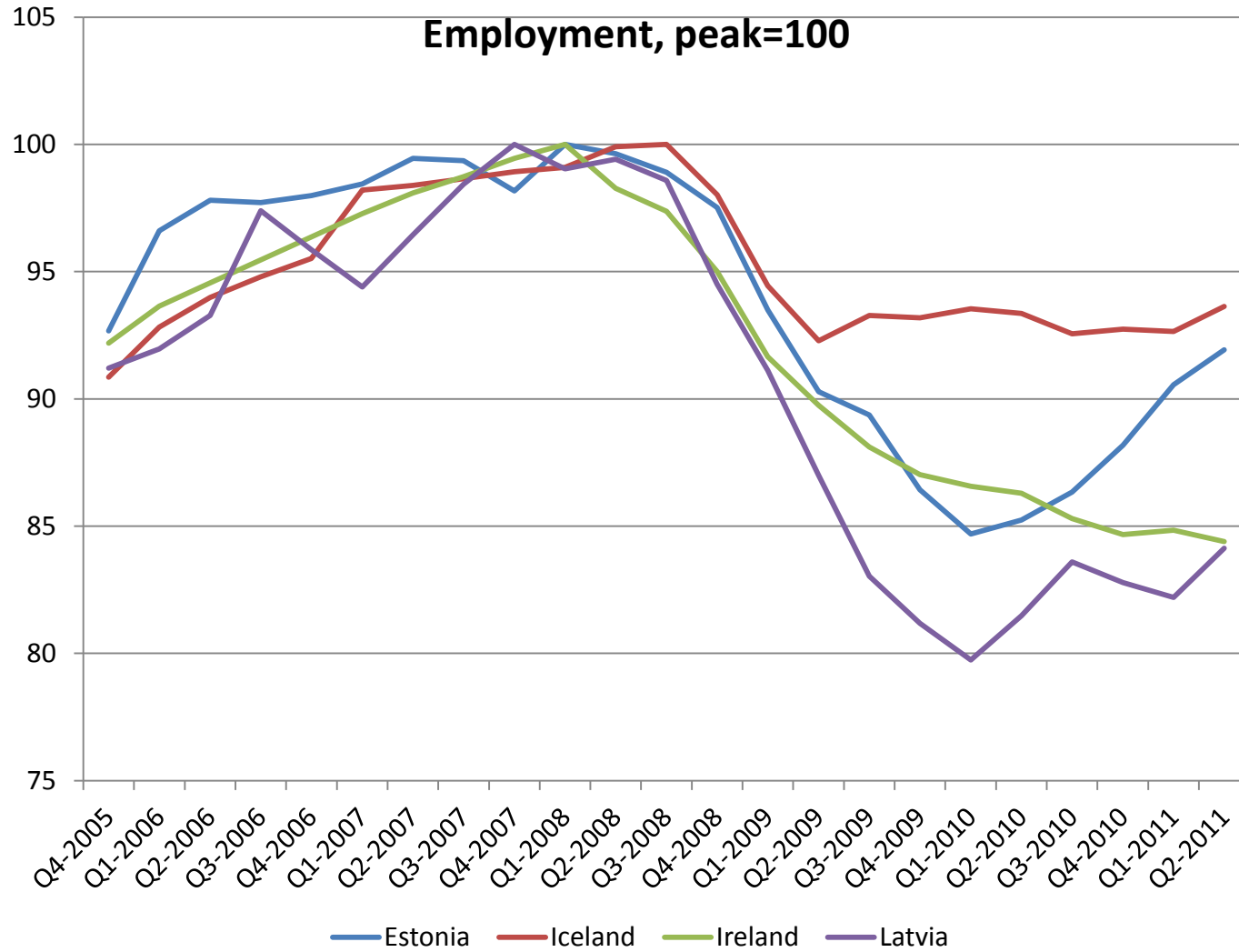
- Iceland zigged when all the conventional wisdom was that it should zag
- Iceland's heterodoxy therefore gives us a test of economic doctrine
- One key issue: internal devaluation versus actual devaluation
- Another key issue: the costs of default

Why not the worst?

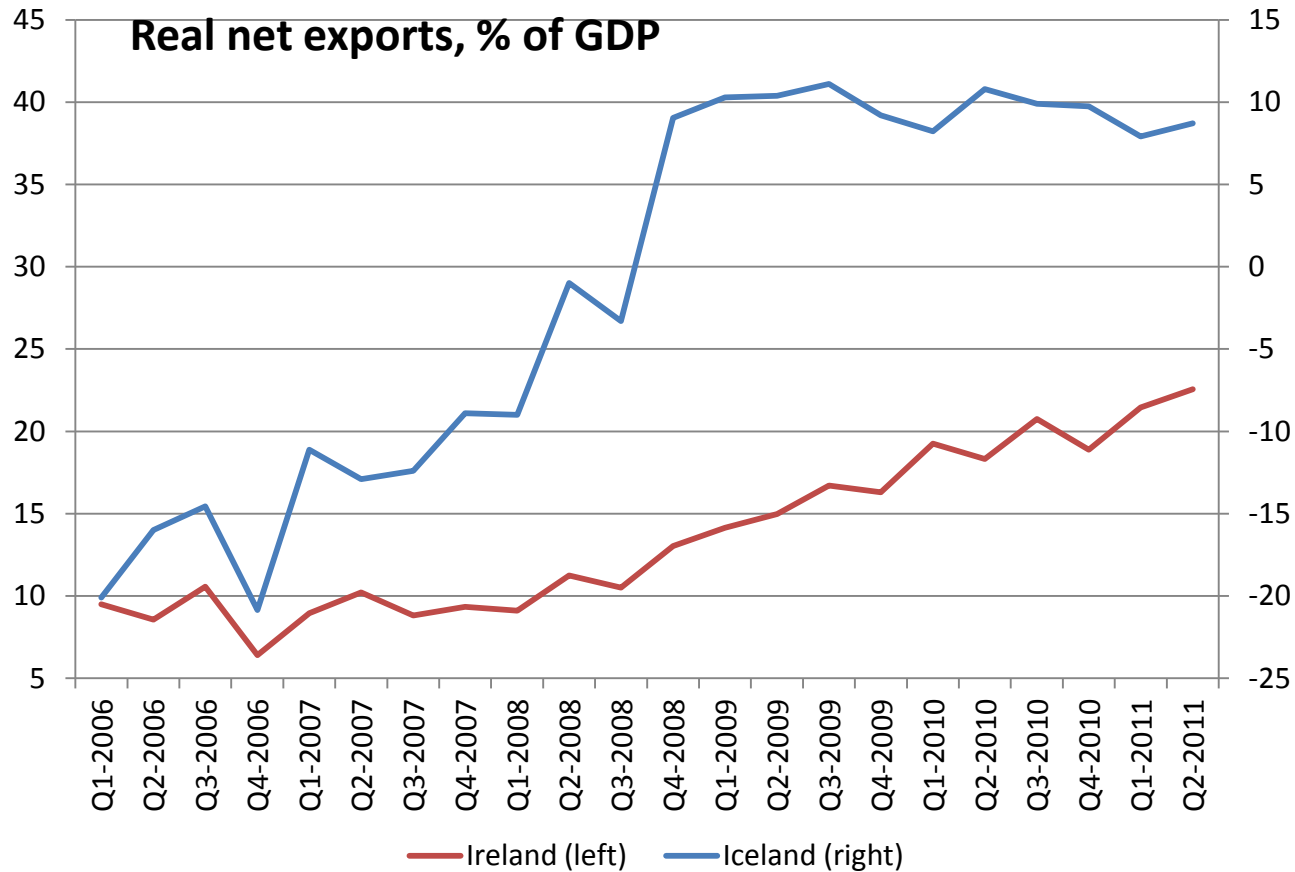


Source: Eurostat, Statistics Iceland

An alternative comparison

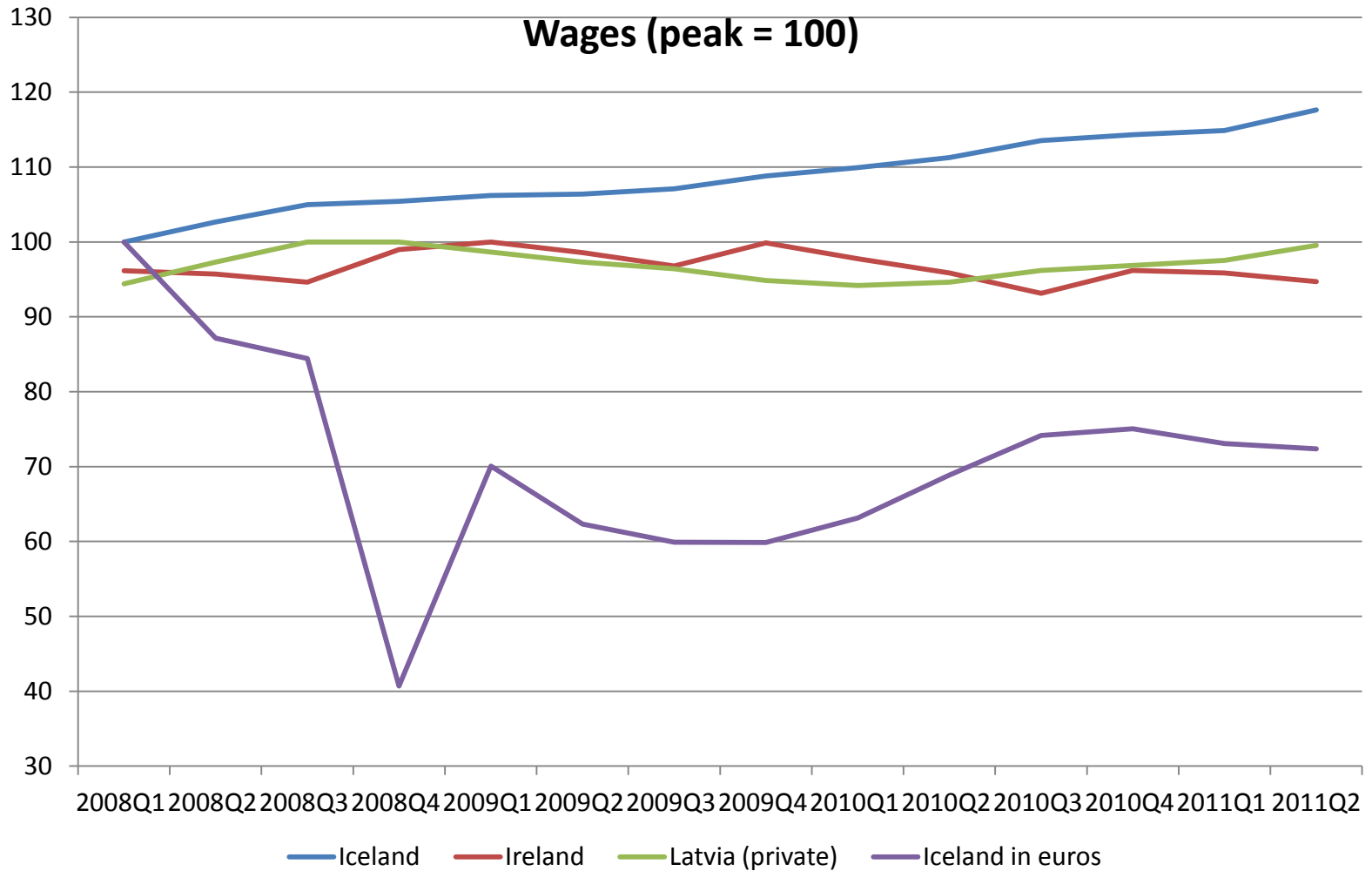


Huge external adjustment



Source: OECD

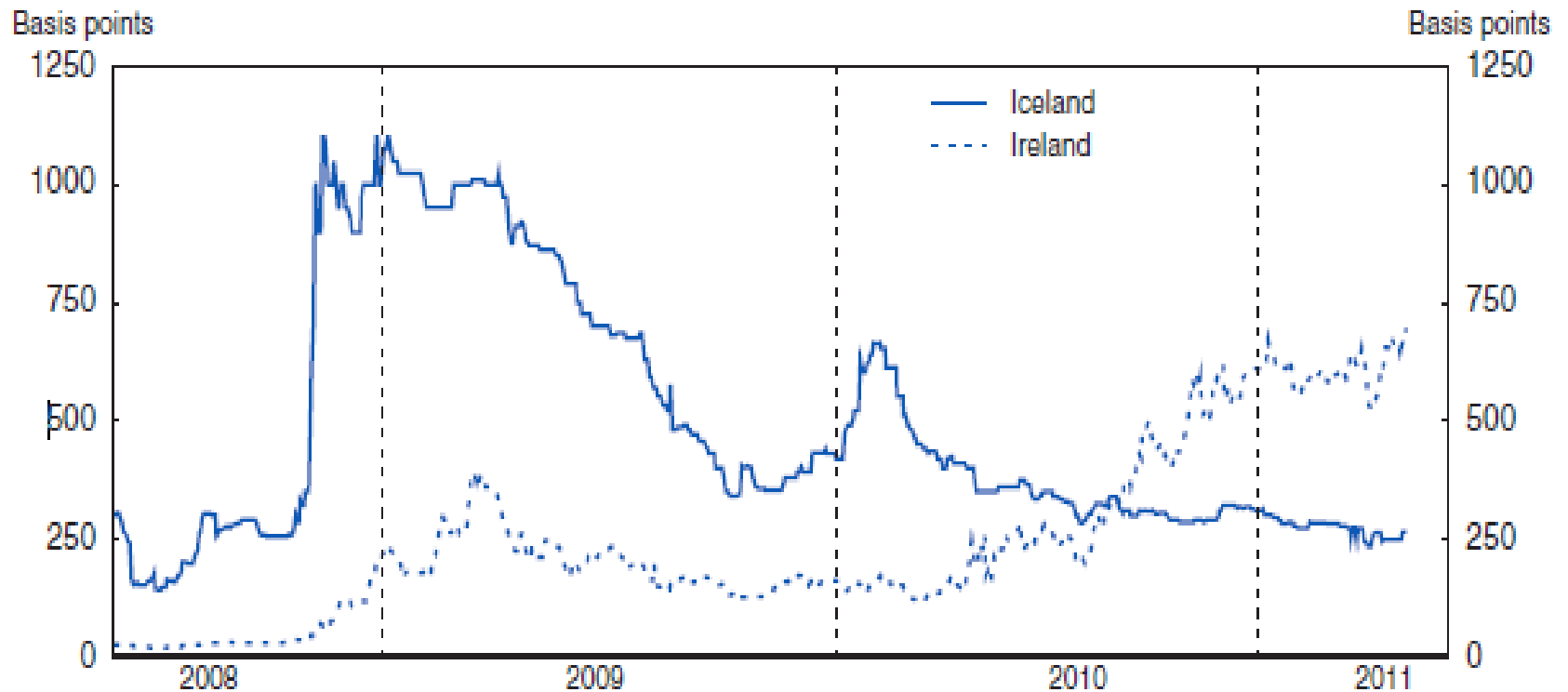
Nominal wages are rigid downward



Source: Ireland NSO, Statistics Iceland

There are not large penalties for heterodoxy

Figure 1.3. Credit default Swap (CDS) rates on sovereign debt are now much lower in Iceland than in Ireland¹



¹ 5-year US dollar-denominated senior unsecured bonds for both sovereign