

# Iceland: Street protests against government and economic meltdown

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Thousands protested in the Icelandic capital Reykjavik last Saturday, calling for the resignation of the government and for early elections. The protest follows weeks of unrest on the streets, in the aftermath of the banking collapse last month that left the economy in meltdown.

Protestors gathered to demand the release of a fellow demonstrator who had been held by police from the previous day. After demonstrating in front of the parliament (Althingi), several hundred protestors proceeded to the main police station where violent clashes took place. Police used pepper spray against demonstrators, and it was reported that at least five people were taken to hospital with injuries.

Days before, the government reached a negotiated settlement with a number of European countries to determine the terms by which savers' deposits in Iceland's banks would be reimbursed. The deal meant that the loan to be made to Iceland by the International Monetary Fund (IMF) of US\$2.1 billion could be finalised. The loan will be conditional on "reforms" to bring the government's soaring public debt under control, which will inevitably mean deep cuts to public services. Having assumed responsibility for the debts of Iceland's three main banks, government debt is set to rise to a staggering 130 percent of GDP next year.

In tandem with the IMF-backed loan, Sweden, Norway, Denmark and Finland announced a joint plan to lend a further US\$2.5 billion to Iceland. Underscoring the fragility of government finances in the current climate, Finland revealed it would have to borrow the funds in order to make them available. Following the announcement of this package, loans from a number of European countries, including Britain, the Netherlands and Germany, were announced, bringing the total loaned to Iceland to approximately US\$10 billion. Some of this funding, from Britain and the Netherlands, is to be used to finance the compensation package by which the Icelandic government will re-pay depositors in the failed banks.

almost one and a half times the size of its economy. Far from guaranteeing stability, it threatens to cause serious uncertainty. Credit rating firm Standard & Poor's reduced its rating on Iceland's national debt from BBB to BBB- in the wake of the loan deal. As John Danielsson, writing in the *Financial Times*, pointed out, "The governments of the UK and the Netherlands have demanded that the Icelandic government cover losses from Icesave savings accounts. Since the total amount of losses may exceed the gross national product of Iceland, it is hard to see how Iceland could meet those demands.... [A] settlement along the lines demanded by the creditors would likely lead to a national bankruptcy."

While the current government won election in early 2007, protestors have made it clear that they have no confidence that it can do anything to avert an economic catastrophe. Gudrun Jonsdottir commented, "I've just had enough of this whole thing. I don't trust the government, I don't trust the banks, I don't trust the political parties, and I don't trust the IMF."

Opposition to the IMF was evident at the protest, with one sign reading: "The IMF will crush education, welfare, healthcare and democracy." A number of those who spoke at the protest indicated their fears that many of these services could face privatisation.

Similar sentiments were expressed by a number of comments published by the BBC from readers in Iceland. Responding to the recent interest rate hike in late October, one said, "This will cause many companies to go under and will put extra pressure on households. I thought it was enough as it was. People have lost a lot of their savings and pensions and I have heard that young males aged 25-35 who are heavily indebted are committing suicide as they can't bear the heavy interest payments."

The interest rate rise from 12 percent to 18 percent was announced in late October by the central bank (Sedlabanki) as a condition for receiving the US\$2.1 billion loan from the IMF.

The amount being made available to Iceland in loans is

Predictions suggest that Iceland faces an economic

contraction of at least 10 percent in the coming year. A third of the total population of 310,000 face the loss of their home and life savings, with the government refusing to guarantee that domestic depositors in the failed banks will receive their money back. Job losses will also rise dramatically in the coming months. With Iceland facing bankruptcy, it has been suggested by some companies with headquarters there that they may relocate. Others will look to shift their operations elsewhere. Figures for October indicate that unemployment stood at 1.9 percent, but it is expected that by the end of November unemployment will be well above 3 percent.

Compounding these problems, the krona has virtually ceased to be traded, with the only sale being a daily auction by Sedlabanki. While it is currently trading at around 170 krónur per euro, Dansk bank analyst Lars Chrissansen believes that when the currency is allowed to be traded freely, its value will plummet to nearer 300 krónur per euro. Such a decline will hit ordinary people hard. On November 26, figures put the rate of inflation at 17.4 percent with prices having risen by 1.7 percent in a month. Food prices led the way in the increase, rising by 30 percent since the start of the year.

Along with the ongoing protests calling for the resignation of the government and Sedlabanki governor David Oddsson, recent polls show an overwhelming majority of the population in favour of early elections. The latest poll conducted by local newspaper *Frettabladid* published on November 25 shows 70 percent in favour of early elections, with 38 percent demanding elections in the first few months of next year. Having been re-elected last year, the governing coalition of the Social Democrats and Independence Party does not have to call another election until 2011.

Reflecting growing tensions within the ruling establishment, Sedlabanki governor Oddsson issued a speech criticising the handling of the economic crisis by politicians. A former prime minister and Independence party leader, who worked closely with current Prime Minister Geir Haarde to liberalise the country's financial system, Oddsson attempted to shift blame away from Sedlabanki for the banking collapse. Stating that "over the past several weeks, the Central Bank of Iceland and its leaders have been at the top of the most-wanted list," he said, "the most fascinating thing is that among the people behind this campaign are those who bear the most responsibility for the situation now facing us."

In Oddsson's opinion, this responsibility lies with the Financial Supervisory Authority. Citing examples of statements provided by Sedlabanki over a period of 18 months prior to last month's banking collapse he stated, "it is a blatant misstatement to assert that the Central Bank of Iceland had not long ago become aware of the situation and warned about it. The Bank

issued repeated warnings in the public arena and was even more vehement in private discussions."

While he did not directly criticise the government by name, this was his target—particularly with regard to its inquiry into the banks' downfall. He described this as a "whitewash" which was "unsuitable and insufficient" to uncover what had caused the collapse. Oddsson also made comments to the effect that the decision by the British government to use anti-terror laws to freeze the assets of Landsbanki following its failure was justified. The *Financial Times* quoted him as saying, "Not all conversations concerning this matter have been made public.... When the matter is investigated, other conversations will have to be made public. I am aware of what they are about and I am aware of what in fact determined the position of the UK authorities."

As the paper goes on to note, this account could undermine attempts by the Icelandic government to sue the UK over its use of the anti-terror legislation.

A no-confidence vote was brought against the government on November 24 by the opposition parties, the Progressive Party and the Left Green Movement. As well as calling for the resignation of the governing coalition, it demanded immediate elections. The motion was defeated by 42 votes to 18 with 3 abstentions.

A further protest is scheduled for December 1.



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