One year since banking collapse, Iceland's crisis deepens

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Over the course of several days last October, Iceland's banking system collapsed. The state was forced to take control of the country's three largest financial institutions, Kaupthing, Glittnir and Landsbanki, raising the threat of state bankruptcy.

One year on, Iceland is still confronted by grave economic and social problems, with massive state debt and worsening social conditions for the vast majority amidst ongoing revelations of the speculative and outright criminal practices of the financial elite.

As with the global economic crisis, none of the fundamental causes of Iceland's banking collapse have been resolved in the intervening year. The population has been burdened with vast sums of debt that will take generations to repay, while the banks that precipitated the collapse have been recapitalised with state finances, allowing them to recommence their speculative practices.

The precarious position of state finances was illustrated last month in a comment from Prime Minister Johanna Sigurðardóttir to *Bloomberg*. With the IMF persisting in delaying payment of the second instalment of a $2.1 billion (€1.4 billion) loan to Reykjavik, she explained that time was running out and that the government could not wait much longer for the funds. Finance Minister Steingrimur Sigfússon warned that a failure to secure the outstanding loans could leave Iceland facing "a second collapse."

In its takeover of the country's three main banks, the then conservative-led government of Prime Minister Geir Haarde assumed control of institutions that held assets ten times greater than Iceland's entire economy. The immediate consequence was a sharp slide in the value of the krona, to a point where the currency could not be traded. Prices rose dramatically, especially for imported goods. Fully a third of the population of 310,000 lost all or most of their savings.

Instability in Iceland had been evident for some time, with the krona having fallen by over 30 percent against most major currencies in the first nine months of 2008, and inflation rising steadily to nearly 15 percent. Then in September, the fallout from the collapse of Lehman Brothers brought the financial system to the brink of failure. Iceland's banks, which had based their expansion by obtaining cheap credit on the international money markets, found that their avenues of finance were closed. Faced with massive short-term debt and no means of paying it, they turned to the state for support.

On September 29, Haarde announced that his government would take a 75 percent stake in Glittnir. The value of the bank was reduced by more than half from its valuation a week previously. One week later, on October 6, the trading of shares on the Reykjavik stock exchange was halted. Then, in the space of three days, Landsbanki and Kaupthing both fell into state hands, the latter in spite of receiving a loan equivalent to five percent of GDP from the central bank.

By late October, talks began with the IMF with a view to securing an emergency loan to avert state bankruptcy. An agreement was reached in November, but ratification was delayed as the IMF insisted that Iceland begin negotiations to compensate international creditors who had lost investments in the collapsed institutions. This included over £1 billion (€1.1 billion) from the UK, as well as large sums of savings from depositors in the Netherlands.

Since the IMF agreement was finalised, with a loan of €1.4 billion being agreed, Icelanders have seen a massive assault on their living standards with deep cuts in government spending and sharply rising unemployment. At less than one percent before the banking crisis, unemployment today is around nine percent. The rate would be even higher were it not for the fact that thousands have made the decision to emigrate to make a living elsewhere.

The Social Democrat-Left Green coalition, in power since January, has proven no less determined than its conservative-led predecessor to place the burden for the financial crisis on the working class. Submitting entirely to the demands of the IMF, the government announced in June deep public spending cuts, coupled with tax hikes. Over the next three years, spending will be cut by 70 billion kronur (€380 million), while tax rises will amount to 58 billion kronur (€320 million).

At the same time, the government has sought to compensate the financial elite responsible for the crisis. In August, it was announced that Kaupthing and Islandsbanki (formerly Glittnir) would be recapitalised with sums of 72 billion kronur (€390 million) and 65 billion kronur (€360 million) respectively, ensuring that their speculative practices can resume.

This despite fresh revelations detailing the criminal operations of the main banks. The most noteworthy of these include the exposure of Kaupthing's practice of providing unsecured loans to bank employees and close associates. Over 200 such loans, valued between €50 million and €1.2 billion, were handed out before the 2008 crisis, with many of them used to buy shares in Kaupthing to artificially inflate their value.

A crucial role has been played by the Left Greens, who have consistently offered a "left" cover for the implementation of government policies and worked tirelessly to restrict popular opposition. The Left-Greens have also accommodated themselves with the call of the Social Democrats for EU membership. Notwithstanding their professed opposition, the Left-Greens agreed to the sending of an application to Brussels to initiate negotiations. Far from offering a road to recovery, joining the EU will only ensure the launching of further attacks on the living standards of working people through privatisation, deregulation and the deepening of budget cuts.

In spite of the government's implementation of austerity measures, the IMF is still refusing to release the second instalment of Iceland's loan, a clear sign that more is expected from the administration in Reykjavik. Pressure is being exerted due to the inability of the government to reach a settlement to compensate depositors in Landsbanki's failed Internet savings scheme, IceSave.

In June, an agreement was reached in principle that would see the UK and Netherlands give Iceland loans of €2.52 billion and €1.2 billion respectively, thus enabling savers to be compensated. But this deal was sidetracked when parliament refused to approve it without various conditions, including the ability to renegotiate terms if Iceland had not repaid the loans by 2024. The UK has opposed such a move.

Beyond the IMF funds, Iceland is relying on a joint €1.7 billion loan from the Nordic countries. Recent reports have also indicated that negotiations with Russia over a potential loan of $500 million (€340 million) have been reopened.

On top of the IceSave dispute, the IMF is also exerting pressure in other areas, including the removal of capital controls and other restrictions on the trading of the krona. Plans have been drawn up for this to commence at the beginning of November. With reports indicating that there are over €1 billion in Iceland belonging to investors who intend to withdraw their funds, there is a real danger that the krona's value will plummet. This would hit working people hard, with everyday items becoming unaffordable. With many people repaying loans obtained in foreign currencies prior to the 2008 crash, repayment costs could spiral out of control.

While the remainder of the IMF loan may help avert a "second collapse" for the financial establishment, it will mean a deepening of the social crisis for the working class.

This will not go unopposed. Protests have already broken out against the new government's continuation of austerity policies targeting working people. The largest of these protests came in August as the IceSave bill was being debated in parliament, when 3,000 gathered in Reykjavik. This was the largest demonstration since the mass protests in January that brought about the toppling of the previous government led by Haarde, when on several occasions more than 5,000 demonstrated.

The mass protests of January, whilst fuelled by legitimate hatred for the financial and political establishment, lacked any clear programme other than calls for fresh elections and the removal of the central bank governor. This prepared the way for the election of a government that has proven no less ruthless in defending the banks at the expense of the working class.

An entirely new perspective is needed: one that opposes the capitalist system and stands for the socialist transformation of society. Such a programme must be based on internationalism, since there is no national solution to the current crisis. While events in Iceland provide a particularly sharp expression of the impact of the economic crisis, the bailing out of the financial aristocracy at the expense of the working class is a global phenomenon. Only by allying their struggles with workers internationally can working people in Iceland advance a viable alternative.