

# Iceland to hold referendum on international debt repayments

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Iceland's Social Democrat-Left Green coalition has confirmed that a referendum on whether to honour the controversial agreement to repay Britain and the Netherlands a total of €3.9 billion by 2024 will be held on March 6.

Late last year, the Icelandic parliament narrowly passed the so-called IceSave bill, which would provide a state guarantee to meet the onerous terms of the agreement, which is designed to repay London and The Hague for compensating hundreds of thousands of British and Dutch citizens who lost savings during the collapse of Iceland's national bank, Landsbanki.

On January 5 President Ólafur Ragnar Grímsson refused to sign the bill into law, triggering a constitutional mandate that the bill be subjected to a national referendum. In the event the electorate votes down the bill, which looks likely according to the latest polls, the legislation will not come into effect.

Announcing the referendum the government declared, "The Icelandic Government has clearly stated its intention to honour its international obligations and remains fully committed to implementing the bilateral loan agreements with the UK and the Netherlands and thus the state guarantee provided for by the law."

An AFP article noted, "The Icelandic government, which has staked its political future on the Icesave legislation, has indicated in recent days that it would like to reopen talks with Britain and The Netherlands in a bid to avoid a referendum."

Amounting to 50 percent of Iceland's GDP, it has been estimated that the yearly repayments under the terms of the present agreement could rise as high as €400 million. A failure to repay the debt within the stipulated timeframe would incur further debts due to the 5.5 per cent interest rate attached to the loans advanced to Reykjavik by London and Amsterdam.

Initial responses to President Grímsson's decision to submit the agreement to a referendum were universally harsh within the financial establishment. Iceland was denounced as a country unwilling to pay its debts, with the

UK Treasury Secretary Lord Myners declaring that if Icelanders voted against the agreement they would "effectively be saying that Iceland does not want to be part of the international financial system."

The collective outrage directed towards Iceland was driven by the concern that no country, no matter how small, should be allowed to challenge the principle that ordinary people must be made to pay for the debts accrued by the speculative practices of the financial elite.

Some commentators are beginning to question the wisdom of imposing such devastating demands on the Icelandic population. Eva Joly, who has been engaged in investigating the banking collapse, told an interviewer on Icelandic television that a third party, possibly Germany or France, should be tasked with chairing new negotiations on the so-called IceSave issue. In other comments, she has labelled the demands being placed on Iceland as "blackmail."

In a piece entitled "How the Icelandic saga should end," Martin Wolf, writing in the *Financial Times* commented, "Do Iceland's taxpayers have a moral obligation to pay this loan? My view is: no. The delusion that finance was the path to riches was propounded by countries that should have known far better. I cannot blame Icelanders for succumbing. I certainly do not want generations of Icelanders to bear the cost."

Wolf, one of the more astute bourgeois commentators on the financial crisis, is no doubt well aware of the mounting anger developing within the Icelandic population, as well as internationally, against the bailout of the banks by ordinary people. At the same time, he is conscious that the current set-up is far from stable, and that any default by Iceland could have far-reaching consequences.

In this regard, Wolf noted the UK government's statement that as much as 90 percent of the outstanding debt could be recovered by the liquidation of Landsbanki's remaining assets. He pointed out, "The obvious answer to the latter point is this: if the assets of the bank are that valuable, why not write off the debt, in return for the claims on these assets?"

This claim is in reality a highly optimistic assessment, based on a strong revival in international financial markets. But such concerns notwithstanding, pressure on Iceland is mounting. The Scandinavian countries, which have pledged a joint \$2.5 billion support package, have indicated that future instalments will be withheld until the IceSave dispute is resolved. The IMF, whilst insisting that its support is not tied to IceSave, has delayed its latest “review” of Iceland’s economic progress. IMF director Dominique Strauss-Kahn told a press conference, “If many countries in the international community feel that we should wait with our review of our recovery package for Iceland, then we must do that.”

Without the continued support which the combined \$10 billion package provided to Iceland, the danger of state bankruptcy will re-emerge. Further cuts in government spending will have to be launched, and additional pressure will be placed on the battered Krona, which has lost more than half its value against other major currencies since the middle of 2007.

With polls indicating that a substantial majority of Icelanders reject being made responsible for the debts of the failed banks, opposition parties in parliament and various groups have sought to present themselves as opponents of the IceSave agreement. Birgita Jónsdóttir, an MP from the Movement, which was formed to contest the elections last April, called for a mediator to oversee new negotiations, but stated that a Scandinavian country would not be acceptable. She said that Sweden, Denmark, Norway and Finland would not be able to act impartially since they were “the same countries which have been putting the thumb screw on us over the Icesave issue.”

The main force behind the official campaign against IceSave has been the InDefence group. A petition launched by InDefence, calling for Grímsson to send the bill to a national referendum, attracted the signatures of 25 percent of the adult population—nearly 60,000 people. The organisation has its roots in the aftermath of the 2008 banking collapse, when it was founded to promote Iceland’s image in the international community and to oppose the use of anti-terror laws by the UK against the failed financial institutions. Those behind the group’s formation had close ties to Britain, with many reportedly having had business dealings there and having been educated at British universities.

As well as enjoying close ties to the right-wing Progressive Party, which has ruled in the past with the conservative Independence Party, reports have linked InDefence representatives with Kaupthing, the largest of Iceland’s failed banks. Far from a “grassroots organisation”, as Britain’s *Daily Telegraph* described it, the group was engaged at the start of 2009 in hiring lawyers on behalf of

Kaupthing to enquire into the possibility of legal action against the British government due to Prime Minister Gordon Brown’s decision to place Kaupthing’s UK operations into administration in October 2008.

Another of their leaders, Magnús Arni Skúlason, was forced to resign his position on the board of the Icelandic central bank last summer after it emerged that he had worked to bypass the currency restriction regulations put in place to support the Krona in the aftermath of the banking collapse.

The campaign waged under the leadership of this organisation has taken a nationalist character. National resentment is also being encouraged by David Oddsson, the former central bank governor and Independence Party leader, who has now become the editor of Morgunbladid, Iceland’s largest circulation daily newspaper.

Such a nationalist campaign does not provide a viable means for ordinary Icelanders to defend their living standards against the sweeping attacks demanded by the political establishment as a whole. This is demonstrated by the fact that, while much has been made about the IceSave repayments, InDefence has said nothing about the vast sums of government money given over for the re-capitalisation of Iceland’s failed financial institutions.

Estimates suggested that Glittnir bank could receive up to 65 billion Kronur, Kaupthing 73 billion Kronur and Landsbanki over 100 billion Kronur. Such vast sums have been obtained by the government’s implementation of austerity measures. These include massive spending cuts, 70 billion Kronur of which were announced last June, and tax hikes. Prime Minister Johanna Sigurdardóttir’s Social Democrat-Left Green coalition has pledged to work towards reducing the budget deficit by 2013, which makes further cuts inevitable.



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