

Icelandic government seeks renegotiation of Icesave deal as economic crisis continues

Jordan Shilton
4 March 2010

Iceland's Prime Minister Jóhanna Sigurðardóttir has said that negotiations over the repayment of almost \$4 billion euros to Britain and the Netherlands as compensation for depositors who lost money in the failed Icesave bank have reached the "make or break" point.

The Icesave dispute between Iceland on the one hand, and Britain and the Netherlands on the other, was caused by the meltdown at the end of 2008 of Landsbanki, which ran the online savings bank Icesave, due to the sub-prime mortgage crisis in the United States and the resulting credit crunch.

With Iceland's major banks having collapsed and the state facing bankruptcy, London and Amsterdam paid a total of £3.4 billion (€3.8 billion or \$5.1 billion) to Icesave depositors, which included approximately 300,000 British and 100,000 Dutch citizens. The British and Dutch governments have since insisted on repayment terms that, if met in full, would amount to over 50 percent of Iceland's gross domestic product.

In the face of public protests, in January Icelandic President Ólafur Ragnar Grímsson agreed to hold a referendum on the terms. The ballot, which is due to be held on March 6, is expected to result in a resounding "no."

The referendum is to take place under conditions in which the efforts of social democratic governments in Greece, Spain and Portugal to impose massive austerity programmes against their populations at the behest of international finance capital are meeting growing resistance.

For this reason the prospect of a "no" vote in the Icelandic referendum has been met with furious denunciations by the European bourgeoisie, who regard it as further undermining their attempts to off-load the economic crisis onto the backs of working people.

For its part, Iceland's Social Democrat-Left Green coalition government is anxious to reach an accommodation that will enable them to call off the referendum, while securing a deal that meets the requirements of international finance capital.

Sigurðardóttir's Social Democratic Alliance, the largest party in the coalition, had agreed to the terms of the first

deal, which was also accepted by the Icelandic parliament. Over the last several weeks, Iceland's negotiators have been meeting on and off with British and Dutch representatives. The most recent discussions broke down on February 26, after the three parties failed to reach agreement over the terms of interest Iceland must meet in repaying the loan.

Iceland's chief negotiator, Lee Buchheit, said, "What Iceland believes should happen is that the British and the Dutch recover the principal amount that they invested, and they recover their own cost of funds, so no one makes money, but they can say no one lost money."

Sigurðardóttir is still holding out the possibility of a last minute deal. "We need to be hopeful until all avenues have been exhausted," she stated.

Resolution of the Icesave dispute has been further complicated by the collapse of the Dutch government. Although a caretaker administration has been established until fresh elections occur in the summer, the new finance minister asked for some time to familiarise himself with the Icesave situation before making any public statement. Moreover, the right-wing Liberal Party is expected to benefit from the collapse of support for Labour and the Conservatives in Holland, and it has taken an especially tough stance on repayment of the Dutch loan.

Britain, meanwhile, is pressing with its demand for Iceland to fully compensate the treasury the sum of £2.3 billion (€2.6 billion or \$3.4 billion), even though it has generally been acknowledged that the UK's regulatory framework was partly responsible for Icesave operations in Britain. When President Grímsson announced his intention to call a national referendum, London responded tersely, with Minister for Financial Affairs Lord Myners declaring that Reykjavík could face international isolation.

This was confirmed when the announcement that Iceland would begin accession talks with the EU was received coolly in London. While noting that Britain would support Iceland's attempt to join the EU, a government spokesman pointedly added, "It's essential they meet their international

obligations under the deposit guarantee scheme.”

The international credit rating agency Standard and Poors had indicated that it may follow Fitch in downgrading Iceland’s credit rating to junk status in the event a deal is not finalised. In addition, the International Monetary Fund (IMF), which is backing a bailout package of \$4.6 billion with a loan of \$2.1 billion, has delayed its review of Iceland’s economic progress, resulting in a hold-up of the latest instalment of the loan. The remaining \$2.5 billion in support, coming from the Nordic countries, whilst not formally linked to Icesave, is part of the IMF package and is thus also being withheld.

More broadly, Iceland continues to face the real possibility of a state default. IMF estimates put state debt as high as 300 percent of GDP, a sum that the organisation had previously identified as unsustainable. As Jon Danielsson wrote recently, “Iceland is already just about the most indebted country in the world as a consequence of the crisis. The economy is in dire straits, but stabilising. If the Icesave repayments become too burdensome it may trigger a sovereign default of Iceland.”

With support for the Social Democratic Alliance in Iceland falling, there are also concerns that a “no” vote will lead to the collapse of the coalition government.

In the face of this political crisis, the Icelandic Federation of Employers are demanding greater inroads into the living standards of working people. Complaining that increases in taxation had not been complemented by comparable spending reductions, the employers’ group claimed that this was a breach of last year’s “stability pact.” In the pact, agreed last June with the organisation and the trade unions, the government had pledged to divide up the burden of savings over the next three years by 55 percent in spending cuts and 45 percent in tax hikes. If such commitments are to be kept, a reduction in government outlays of 50 billion krónur (€287 million or \$391 million) would be necessary by 2011, a devastating sum for a country whose GDP does not even reach €10 billion (\$13 billion).

These cuts will impact social services that are already under severe strain. Ten local authorities in Iceland are facing serious financial problems. For example, the deficit in Álfarnes, a municipality close to the capital, amounts to 2.1 million krónur (€12,000 or \$16,000) for every resident. Unemployment has risen sharply in the country, and would be higher still if many Icelanders had not decided to emigrate.

At the same time, reports have emerged of huge payouts to those managing the assets of failed banks that were bailed out by the government. According to statistics, the resolution committees of the old banks are earning anything from 3 to 5 million krónur per month.

Furthermore, the crisis has not prevented the financial elite from continuing to engage in speculative practices. Recent revelations concerning Straumur bank show that several employees used their position to trade illegally in Icelandic krónur by bypassing currency restrictions imposed in late 2008.

While hostility to the Icesave deal amongst working people is entirely legitimate, a “no” vote in Saturday’s ballot will not stop the onslaught against working people’s living standards.

The leaders of the “no” campaign, grouped in the InDefense organisation, have close links to the right-wing Independence and Progressive parties and the banks. They are calling for a “no” vote on an explicitly nationalist basis. They have sought to separate the Icesave issue from the general debt crisis confronting Iceland, in order that opposition to any Icesave deal not become a vehicle for a broader movement against spending cuts and bank bailouts. The Independence and Progressive parties are hoping to use the crisis that the current coalition government faces to pave the way for their own ascension to power.

Working people must advance their own independent alternative. Starting with the rejection of any obligation to cover the debts of a handful of speculators, they must seek to unite their struggles with working people internationally, who in all countries are being confronted with the demand to sacrifice to compensate the financial elite. This urgent task can be accomplished only on the basis of a socialist programme.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact