

The

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Government

Address to the Nation by H.E. Geir H. of Haarde, Prime Minister of Iceland

Iceland

Fellow Icelanders

I have requested the opportunity to address you at this time when the Icelandic nation faces major difficulties.

The entire world is experiencing a major economic crisis, which can be likened in its effects on the world's banking systems, to an economic natural disaster. Large and well established banks on both sides of the Atlantic have become victims of the recession and governments in many countries are rowing for all they are worth to save whatever can be saved. In such circumstances every nation thinks, of course, first and foremost of its own interests. Even the biggest economies in the world are facing a close struggle with the effects of the crisis.

The Icelandic banks have not escaped this banking crisis any more than other international banks and their position is now very serious. In recent years the growth and profitability of the Icelandic banks has been like something akin to a fairy tale. Major opportunities arose when the access to capital on foreign money markets reached its peak, and the banks together with other Icelandic companies, exploited these opportunities to launch into new markets.

Over this period the Icelandic banks have grown hugely and their liabilities are now equivalent to many times Iceland's GNP. Under all normal circumstances larger banks would be more likely to survive temporary difficulties, but the disaster which is now engulfing the world is of a different nature, and the size of the banks in comparison with the Icelandic economy is today their main weakness.

When the international economic crisis began just over a year ago with the collapse of the real estate market in the US and chain reactions due to the so-called sub-prime loans, the position of Icelandic banks was considered to be strong, as they had not taken any significant part in such business. But the effects of this chain of events, have turned out to be more serious and wide ranging than anyone had expected.

In recent weeks the world's financial system has been subject to devastating shocks. Some of the biggest investment banks in the world have become the victims and capital in the markets has in reality dried up. The effects have been that large international banks have stopped financing other banks and complete lack of confidence has developed in business between banks. This has caused the position of Icelandic banks to deteriorate very rapidly in the last few days.

Fellow Icelanders

The Government of Iceland, the Central Bank and the Financial Supervisory Authority have over the past days and weeks worked ceaselessly to find a solution to the enormous difficulties which threaten Icelandic banks, in good cooperation with the banks. Various parties have been involved in this work, for example the pension funds and representatives of the labour market. The Government has, for its part, aimed for the sale by Icelandic banks of foreign assets and a reduced presence abroad, so that the Icelandic state, so small in comparison with the Icelandic banks, would have the capacity to support them. We should bear in mind in this connection that the huge measures introduced by the US authorities to rescue their banking system represent just under 5% of GNP. The total economic weight of the Icelandic banks, however, is many times the GNP of Iceland.

Thus a decision on wide-ranging rescue measures for the Icelandic banks is not only a matter of tax payers shouldering a heavier load temporarily, but concerns the position and future of the Icelandic nation as a whole.

The Government has stated that it will do what is in its power to support the banking system. With this aim in view many important steps have been made over recent weeks and months. But in the perilous situation which exists now on the world's financial markets, providing the banks with a secure life line poses a great risk for the Icelandic nation. People must bear this in mind when there is talk about the Icelandic state taking on loans of thousands of billions to defend the banks in the rough waters which they now find themselves in. There is a very real danger, fellow citizens, that the Icelandic economy, in the worst case, could be sucked with the banks into the whirlpool and the result could be national bankruptcy. No responsible government takes risks with the future of its people, even when the banking system itself is at stake. The Icelandic nation and its future takes precedence over all other interests.

Over the weekend there were virtually continuous meetings on the state of the financial system. I can assure you that everyone who took part tried their absolute best to find an arrangement so that the operations of the banks and investment institutions could continue today and the result of the weekend's work was that yesterday evening the banks would be able to continue operations for the moment. For this reason I said yesterday evening that it was my judgement and that of the Government that there was no reason to introduce special

measures on our behalf. No responsible government introduces dramatic measures on the banking and financial system of the nation unless all other courses are closed.

The position has today altered completely and for the worse. Major credit lines to the banks have been closed and it was decided this morning to suspend trading with the banks and with the savings funds in the Icelandic Stock Exchange.

We now need responsible and measured reactions. I will present immediately a bill to parliament which will allow the exchequer to address the current situation on the financial markets. I have spoken to the opposition parties and received assurance that the bill will be passed today. I would like to thank them for their cooperation.

By making these changes in legislation we will adapt the banking system to Icelandic circumstances and rebuild the trust of foreign operators in Icelandic banking and financial operations. If the bill is passed today it can be assumed that the measures will come immediately into force.

I would like to diffuse all doubt that deposits by Icelanders and private pensions savings in all Icelandic banks are secure and the exchequer will ensure that such deposits are reimbursed to savers in full. No one need be in any doubt on this. The authorities will also ensure that the countries businesses have access to capital and banking services to the maximum extent possible.

Fellow countrymen

I am well aware that this situation is a great shock for many, which raises both fear and anxiety. In such circumstances it is extremely urgent that the authorities, companies, social organisations, parents and others who can contribute make every effort to ensure that daily life is not disrupted.

If there was ever a time when the Icelandic nation needed to stand together and show fortitude in the face of adversity, then this is the moment. I urge you all to guard that which is most important in the life of everyone of us, protect those values which will survive the storm now beginning. I urge families to discuss together and not to allow anxiety to get the upper hand even though the outlook is grim for many. We need to explain to our children that the world is not on the edge of a precipice and we all need to find an inner courage to look to the future.

Despite this major setback the future of the nation is both sure and bright. What is most important is that the foundations of our society and the economy are solid, even though the superstructure has given way in the face of the present disaster. We have natural resources, both on sea and land, which will ensure us a good living whatever happens. Our level of education and the human resources which we have here are no less enviable in the eyes of

other nations than our natural resources. By the same token, we will have the opportunity to rebuild the financial system. We have learnt from those mistakes which were made during that period of massive growth and that experience will prove to be valuable when put to the test. With a common effort and with that optimism which characterises the Icelandic people, we will emerge from these difficulties and make a new and energetic come-back.

Fellow Icelanders

The task of the authorities over the coming days is clear: to make sure that chaos does not ensue if the Icelandic banks become to some extent non-operational. For this the authorities have many options and they will be used. Both in politics and elsewhere it will be important to sheathe our swords. It is very important that we display both calm and consideration during the difficult days ahead, that we do not lose courage and support each other as well as we can. Thus with Icelandic optimism, fortitude and solidarity as weapons, we will ride out the storm.

God bless Iceland.

Reykjavík, 6 October 2008