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2017

## Chapter 15: Iceland

from *Research Handbook on State Aid in the Banking Sector*

### Summary

The global financial crisis which exploded in the autumn of 2008 resulted in an economic crisis of unknown magnitude in the Icelandic economy and in the collapse of the country's banking system. Suddenly, this small country in the middle of the Atlantic was in the spotlight of both financial and mainstream media as sensational headlines of a nation's bankruptcy and economic meltdown emerged. Later the country was to remain in the headlines due to controversial decisions related to the protection (or, as the case may be, non-protection) of deposits culminating in the Icesave case.<sup>1</sup> From the Icesave saga emerged the urban myth of how the Icelandic people had refused to bear the economic burden of the collapse of the banking system. As is often the case, the truth lies some-where in between. The Icelandic government enacted a series of measures to combat the effects of the crisis related to the rescue and restructuring of the banking system, resolution and insolvency regimes and fiscal policy. This entailed an unprecedented allocation of State aid. In turn, these measures resulted in a series of State aid decisions related to the Icelandic financial sector. This chapter will describe the main regulatory and fiscal interventions by the Icelandic government. However, the focus will be on the implications of these measures from a State aid perspective. Due to the volume of decisions related to the financial crisis it is not feasible to examine all measures; instead, select case studies will be provided which will include a few State aid schemes and individual aid decisions.

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### Recommended Citation

Tynes, Dora Sif. December 29, 2017. "Chapter 15: Iceland." In *Research Handbook on State Aid in the Banking Sector*, edited by François-Charles Lapr v te, Joanna Gray, and Francesco De Cecco, 453–502. Edward Elgar Publishing.

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