Reykjavik, 23th October 2011

To whom it may concern.

As you are one of the speakers at the conference *Iceland´s Recovery—Lessons and Challenges*, wich will be held on October 27th in Reykjavík, we feel compelled to write you this letter. We, the signatories, are concerned that information provided to you about Iceland's economy may have been selectively chosen to convey a view of things that your host, Iceland´s government and the IMF, wish were true but does not reflect the true state of affaris Therefore we would like to give you an independent perspective on the economic situation of the government and municipalities, the finanicial system and common citizens of Iceland.

General issues

First of all, the present state of Iceland's economy is clearly much different from that envisaged at the beginning of the IMF program for economic stabilization and reconstruction in Q4 2008. Foreign debt at year-end 2010 was almost double the target level under the program while public sector debt, unemployment and inflation all were significantly higher than projected.

Fiscal policy

Before Icelandic banking crisis in 2008, the debt of the state treasury was 26% of GDP. According to official numbers the debt has risen to 111% of GDP but the gross national debt is officially placed at 280% of GDP. Net treasury balance has deteriorated by 140bn ISK or 26% of GDP between 2010 Q2 and 2011 Q2. Taking those numbers into account we can estimate the Icelandic state has since the banking crisis started, borrowed up to and around 100% of GDP, without even taking into account substantial FX-reserve loans provided under the IMF program. Interest payments on government debt now amount to 20% of government revenue.

Municipalities

At YE 2010 municipal liabilities were up to 586bn ISK. By excluding the Reykjavík Energy company‘s public guarantees of close to 300bn ISK and 47bn ISK unfundend public pension liabilities, gross municipal debt remains at approx. 310bn ISK. Equivalent to 20 % of GDP or 154% of municipal revenue.

Financial system

The resurrection cost of the Icelandic banking system in late 2008 has been estimated at 64% of GDP, a world record. Their domestic assets, mostly loans to productive Icelandic companies and individuals, were transferred to the new banks at 45-65% of nominal value. This discount however, has not made it‘s way to the balance sheets of bank customers, who are still being charged for full repayment to a failed credit regime. The consequences being massive bankruptcies, foreclosures, asset stripping and job losses.

The public

At this moment at least 20% of Icelandic homes are unable to repay their loans in full and around 40% are facing devestating difficulties. In fact only 10% of all homes are able to sustain normal repayment flows on their alleged liabilities.

Personal income less taxes has gone down 27.4% for the past 3 years while prices have risen 40%. A natural consquence can be seen in sharply reduced consumption and demand. At the same time recipients of food handouts have multiplied, unfortunately public statistics on this category are scarcely available and inaccurate. Regardless, the breadlines are becoming visibly longer and municipal welfare expenses have risen by 62% since the start of the banking crisis.

According to last year‘s tax returns, private property and real estate values have gone down while debt has gone up for Icelandic homeowners. Families in positive equity are 8.1% fewer, while the number of families in negative equity has increased by 12.1% since the preceding year.

Officially stated unemployment is now 6.7%, which is an optimistic number since many have been pushed into education, to take on student loans rather than unemployment benefits. Close to 5,600 people have left the country to seek work and better quality of life elsewhere, which is equivalent to a 1.84% population decrease or more than one family every single day. A considerable number is also without benefit rights and therefore not registered as such. From public reports in 2010 alone the jobs lost can easily be estimated closer to 22,500 or an 8.2% recession of the work force.

Conclusion

The main reason for the Icelandic financial crisis was a grossly oversized banking sector. Therefore it seems odd from a public perspective to witness the government enthusiasticly attempt to rebuild an already failed system instead of promoting growth in the real economy. The burden of a systemic banking catastrophe has been imposed primarily on the common people of Iceland. The government has been unwilling to mandate general debt relief to adjust for the economic dislocation caused by questionable financial practices, instead relying on case-specific approaches with added complexity, leaving it largely up to the banks to decide how individual cases are handled. Such approaches seem designed to maximise repayment rather than providing any resemblance of compensation for the widespread embezzlement.

These government policies and banking practices have merely succeeded in fueling futher inequality. People are outraged by high-level executives and owners of failed businesses recieving massive debt writedowns yet retaining their operations and ill-gotten profits, while the public shoulders the consequences. Elected representatives working for the interest of the financial sector at the expense of public interests, have become a real threat to social stability in Iceland.

In Iceland the financial elite have transferred their exposures and liabilities to the public balance sheet just as they have in Greece, Ireland, Portugal and elsewhere. Iceland is no different in that the primary victims of the financial crisis have been democracy and the rule of law.

While we sincerely hope that the information provided will be of use, we would also like to bring your attention to further references provided at the end of this letter. If you have any queries, the following people would be ready to respond to the best of their abilities and meet with you or any guests of the conference if requested during your stay in Iceland.

Sincerely,
Andrea Jóhanna Ólafsdóttir, leader of The Coalition of Home Owners
Áshildur Cesil Þórðardóttir, retired gardening director
Elínborg K. Kristjánsdóttir, former journalist
Elías Pétursson, manager/ university student
Eyjólfur Kolbeinn Eyjólfsson, software specialist
Björg Sigurðardóttir, former bank employee
Björk Sigurgeirsdóttir, consultant
Guðbjörn Jónsson, retired consultant
Guðmundur Ásgeirsson, system developer
Guðrún Skúladóttir, assistant nurse
Gunnar Skúli Ármannsson, cand med
Haraldur Líndal, economist
Helga Garðarsdóttir, university student
Helga Þórðardóttir, teacher
Indriði Helgason, electrician
Jakobína I. Ólafsdóttir, cand. mag. public administration
Rakel Sigurgeirsdóttir, Icelandic teacher
Sigurjón Þórðarson, biologist
Sigurlaug Ragnarsdóttir, bachelor of fine arts
Vilhjálmur Bjarnason, not investor
Þórarinn Einarsson, activist
Þórður Á. Magnússon, CEO

Sources / links which support some of the statistic in this letter
http://static.mbl.is/2011/04/erlandidadrisa.pdf (see pages 3-5)
http://www.samband.is/verkefnin/fjarmal-sveitarfelaga/arsreikningar/
http://www.visir.is/skuldir-rikisins-nema-1800-milljordum/article/2011110919783
http://www.mbl.is/frettir/forsida/2011/10/02/rikid_skuldar_1_386_milljarda/

For more inquiries please contact the following who are also willing to meet you while you stay in Iceland:
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