

5 April 2018

Address

by Þórunn Guðmundsdóttir, Chairman of the Central Bank of Iceland Supervisory Board, delivered at the 57th Annual General Meeting of the Central Bank of Iceland, 5 April 2018

Mr. President, Prime Minister, Minister of Finance and Economic Affairs, Minister of Education, Science and Culture, Minister of Transport and Local Government, Speaker of Parliament, bank directors, foreign ambassadors, ladies and gentlemen! I welcome you to the 57th Annual General Meeting of the Central Bank of Iceland and hereby call the meeting to order.

As has been stated at previous Central Bank annual meetings, the Supervisory Board monitors the Bank's compliance with the statutory provisions applying to its activities. In addition, the Board confirms various decisions and rules set by the Governor. The Board comprises seven members who are elected following each Parliamentary election.

At the beginning of 2017, Þórunn Guðmundsdóttir was Chair of the Board. Other members were Jón Helgi Egilsson, Ingibjörg Ingvadóttir, Ragnar Árnason, Ágúst Ólafur Ágústsson, Björn Valur Gíslason, and Audur Hermannsdóttir.

On 25 April 2017, the Supervisory Board comprising Þórunn Guðmundsdóttir (elected to chair the Board at its first meeting), Björn Valur Gíslason, Sigurdur Kári Kristjánsson, Thór Saari, Sveinn Agnarsson, Frosti Sigurjónsson, and Audur Hermannsdóttir was elected. The Supervisory Board held 13 meetings in the course of 2017.

As is described in the Annual Report, which is available here today, the Central Bank is responsible for a number of regular projects, in connection with its objectives, and various special projects. In March 2017, a historical milestone was reached with the liberalisation of nearly all of the capital controls. Work is still underway, however, on important projects related to the liberalisation of the remaining controls and a new foreign exchange framework for the post-controls period.

In addition, a major overhaul of the Bank's in-house IT systems was ongoing during the year, and a new trading system was rolled out after considerable preparatory work. A substantial amount of work was also undertaken in preparation for the renewal of the Bank's interbank real-time gross settlement and netting systems. This work will continue in 2018, but the implementation of new

financial infrastructure in the banking system, which is currently underway, must be spread out over time so as to minimise risk and reduce strain on both IT departments and the Icelandic Banks' Data Centre.

By law, the principal objective of the Central Bank of Iceland is to promote price stability. The Central Bank of Iceland shall also promote financial stability. Inflation was below the inflation target throughout 2017. The Monetary Policy Committee kept the Bank's key interest rate unchanged early in the year and then lowered it by 0.75 percentage points in three increments in May, June, and October. This is discussed further in Chapter II of the Bank's Annual Report. Economic conditions were broadly favourable for the financial system in 2017. As was the case a year ago, private sector debt levels were relatively low in historical terms, and households' and businesses' resilience to shocks was greater than it had been in a long while. The position of the large commercial banks was sound at the year-end: their capital ratios were high and their liquidity position well above the regulatory minimum. This is explored more fully in Chapter III of the Annual Report.

One of the Central Bank's main tasks is to maintain Iceland's international reserves, which have been quite large in recent years. In 2017 the reserves shrank by nearly 130 billion krónur, to 687 billion krónur at the end of the year. The reduction was due mainly to settlement with owners of offshore krónur and repayment of Treasury foreign debt. As before, the reserves were still large by most metrics at the end of the year.

According to the profit and loss account, the Bank recorded a loss of just over 23 b.kr. in 2017, as opposed to a loss of nearly 35 b.kr. in 2016. The negative operating results stem mainly from the international reserves – more specifically, from negative exchange rate and interest rate differentials, as can be seen in the annual accounts, which are available to you today.

Wages and related expenses contracted by 3% between years, after having increased by 9% in the previous year. The Bank's assets totalled 764 b.kr. at the year-end, and equity declined from 44 b.kr. at the end of 2016 to 22 b.kr. at the end of 2017. The year-end capital ratio was 2.9%, as opposed to 5% at year-end 2016. There is no profit for disposal, and the Bank does not consider it timely to take a decision to call in equity on the basis of Article 34 of the Central Bank Act, no. 36/2001, as is mentioned in the Annual Report.

Last year it was decided to wind up the Central Bank of Iceland Holding Company, ESÍ, a company owned by the Bank. A resolution committee was appointed for the company in October, and the claim submittal period concluded in December. Winding-up proceedings for two companies owned by ESÍ, Hilda and SPB, also began in 2017, and the deadline for filing claims was in July. The aim is to complete the winding-up process for these companies this year.

ESÍ was established in late 2009. Its role was to hold, process, and collect on the claims held by the Central Bank in the wake of the banking collapse. When the company was founded, its balance sheet was about 491 b.kr. in size, and its equity was 1 m.kr. At the end of 2017, the balance sheet was down to just over 8 b.kr., much of it in bank deposits. In the eight years since ESÍ was established, the company has paid its loan from the Central Bank in full, it has paid about 69 b.kr. in interest and the same amount in dividends to the Bank, in addition to paying nearly 20 b.kr. in taxes to the Treasury. The company has therefore returned a total of 157 b.kr. to the Central Bank and the Treasury. With the winding-up of ESÍ, a complex settlement project entrusted to a subsidiary of the Central Bank was concluded and an important phase of the the banking collapse brought to a close.

A major step towards full liberalisation of the capital controls was taken in March 2017 without affecting financial or economic stability. Lifting the capital controls may have taken longer than many had hoped, but the process was well organised and always based on the principal objective of minimising the impact on the economy. That objective was met. The capital controls represented a massive intervention in the economy, and lifting them was likewise a big job. The Bank's Capital Controls Surveillance Unit played an important role in the process, both in setting rules and in resolving specific matters relating to the controls.

Nearly a decade has passed since Iceland was struck by a severe currency crisis and its banking system collapsed. These events affected Icelandic society in ways that to some extent can still be felt. At this turning point, there is good reason to look over our shoulder and assess our progress since then. Certainly it took longer than originally expected to resolve the crisis and untangle the problems it created. But on the whole, we can say that these efforts have been successful and that our economy is now stronger than anyone dared hope or imagine. Without doubt, debate on the run-up and responses to the crisis will continue. But it is hardly possible to debate that within these walls a Herculean effort was made to rescue what could be rescued, particularly to include preserving financial services and domestic and cross-border payment intermediation during and after the height of the crisis.

The Central Bank employed 185 members of staff at the end of 2017. The gender ratio remained relatively even, with 92 men and 93 women employed by the Bank at the year-end. Among departmental directors there were six men and five women just before the end of the year, but that ratio flipped to six women and five men in early 2018.

Although the Central Bank's principal objectives were simplified by statutory amendment in 2001, which specified price stability as the Bank's main goal, the Bank has other objectives as well and carries out a large number of tasks. The Central Bank conducts in-depth research in its sphere of activity, as can be seen in its publications and working papers. Data collection and information processing

must satisfy the stringent requirements that our participation in international cooperation entails, and we must carry out our work as effectively as possible, whether it involves issuing rules, handling funds, or communicating with the authorities and other domestic and foreign parties. In order to carry out this work and achieve the objectives with which it is entrusted, the Bank needs qualified employees and must be strong enough to fulfil its legal mandate.

In closing, I would therefore like to take this opportunity to thank Central Bank staff members for very good work and collaboration in 2017. In particular, I would like to thank my fellow Supervisory Board members, the Governor, Deputy Governor, Supervisory Board secretary, and Internal Auditor for fruitful cooperation. I will now turn the floor over to Prime Minister Katrín Jakobsdóttir. Following her speech, Governor Már Gudmundsson will address the meeting.