



21 March 2013

Address

Lára V. Júlíusdóttir, Chairman of the Supervisory Board, at the 52nd Annual General Meeting of the Central Bank of Iceland, 21 March 2013.

Madame Prime Minister; honourable Ministers, Governors, and Ambassadors;
Ladies and Gentlemen

Four years have now passed since the present Supervisory Board took up its position. Parliamentary elections are due to take place towards the end of April, and after the election a new Supervisory Board will be appointed. I would like to take this opportunity to look back over the ground we have covered and recall to mind the most important tasks undertaken by the Supervisory Board and the Central Bank in the last four years.

When the Supervisory Board took up its duties in the spring of 2009, the consequences of the banking collapse of October 2008 were becoming apparent in all their stark reality. The country was faced with unemployment, recession, a gaping fiscal deficit, depleted foreign currency reserves, and a debt crisis. The Central Bank was forced to take on tasks that lie outside the usual activities of central banks, and the newly appointed Supervisory Board had to put in a great deal of effort seeking solutions to problems for which there were no precedents in its previous operations. Here I might mention the establishment of the Bank's holding company, which took over management of the assets obtained by the Bank following the collapse. Another example was the establishment of Greiðsluveitan to administer the netting system. The Bank has also had to administer the capital controls that were deemed a necessary element in the economic program agreed between the authorities and the International Monetary Fund. The purpose of the controls is and will be to ensure the greatest possible exchange rate stability and to prevent any ill-timed outflow of currency that might jeopardise the country's economy and financial institutions.

The Supervisory Board has monitored closely the progress of the economic programme, which was completed in August 2011. The programme must be seen as having been a notable success, though by no means are all the problems associated with the banking collapse behind us. Among the tasks still unresolved are the lifting of capital controls, the formulation of monetary policy for the future, and the achievement of the Bank's main objective of price stability in line with its inflation target.

During the last year, as in previous years, the Central Bank has issued a number of interesting working papers and economic reports. Among these, was a flagship publication entitled *Iceland's currency and exchange rate policy options*. This comprehensive study by a group of our experts provides an excellent overview and analysis of Iceland's options in currency and exchange rate policy and, I believe, provides a firm basis for informed discussion on these important matters. I urge as many of you as possible to read this report and draw your own conclusions on the best route for Iceland to take towards the future.

The *Annual Report* here before us provides a brief conspectus of the many and various operations that go on within the walls of the Central Bank. The Bank's senior management remained unchanged in the past year. At the end of the year, the Bank employed a staff of 178.

I shall now give a brief statement of the bank's financial result and balance sheet, including its account subsidiaries.

The profit and loss account shows a profit of 14.3 b.kr. for the year 2012, which is similar to the previous year. Interest earnings fell by a little under 20 b.kr., explainable chiefly by a fall in interest income on domestic holdings alongside a reduction in interest rates on foreign deposits. Interest expenses contracted slightly, by just under a billion krónur, and stood at 27 b.kr. Net interest earned thus stood at around 14.7 b.kr. Exchange rate differences were positive to the tune of 4.7 b.kr. as compared to 7.4 b.kr. in 2011.

Other operating revenue rose by a little under 700 m.kr. over the year and stood at 5.4 b.kr. Operating expenses fell from 26.7 b.kr. to under 8 b.kr., or 70 percent, chiefly as a result of a reduced impairment of claims held by the Bank. The Central Bank's assets according to the balance sheet stood at 1,068 b.kr. at the close of the year, down from 1,581 b.kr. in the previous year. The primary reason for this reduction can be traced to prepayments of foreign loans taken by the Treasury and the Central Bank. 53% of the original loan facility from the IMF and 59% of the original amount to the Nordic countries were repaid. Assets net of liabilities, the Bank's equity, stood at 98.1 b.kr. at the end of the year, an increase of 14.3 b.kr.

Corporate tax on Bank-owned companies in 2012 amounts to a little over 2.2 b.kr. Dividend payments under the rules on transfer to the Treasury amount to just short of 2.2 b.kr. Total payments to the Treasury thus amount to around 4.4 b.kr.

Honoured guests

The collapse of the economy in 2008 undermined public confidence in many of the institutions of Icelandic society, including the Central Bank. Trust and confidence are key to resolving many of the problems with which the Central Bank has to contend. Among these, I will name lifting the capital controls,

containing inflation expectations, and securing access to international and domestic capital markets. It is the aspiration of the present Supervisory Board and every member of the Bank's staff that the Bank should enjoy the trust and respect of the people of Iceland. We believe that some progress has now been made in that direction.

I take this opportunity to thank my colleagues at Supervisory Board and staff of the Bank for their excellent work and co-operation during the year. In the four years I have spent at the Bank, I have worked with two governors, Már Guðmundsson and Svein Harald Øygard, and their deputy governor, Arnór Sighvatsson, and I wish to thank them all for their excellent collaboration over this time.

We shall now hear the address of the Minister of Finance and Economic Affairs before Governor Már Guðmundsson takes the floor.