

Iceland's Grimsson Says People Should Have Final Say on Icesave Agreement

By Jonas Bergman and Omar R. Valdimarsson - Nov 26, 2010 10:59 AM GMT

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Nov. 26 (Bloomberg) -- Iceland's President Olafur R. Grimsson talks about the country's progress since receiving a \$4.6 billion International Monetary Fund-led loan. He speaks with Mark Barton on Bloomberg Television's "On The Move."
(Source: Bloomberg)

Iceland's President [Olafur R. Grimsson](#) said voters should get the final say on any depositor claims accord with the U.K. and Dutch, signalling he could be willing to block a deal the government says may come soon.

“If the people of Iceland are being asked to pay for the failure of a private bank, they should also have a say in the final outcome,” Grimsson said in an interview with Bloomberg Television’s [Mark Barton](#) today. “So I don’t think any deal that is not in harmony with the Icelandic people is viable.”

Grimsson in January this year blocked a \$5.2 billion deal to cover British and Dutch depositor claims stemming from Icesave accounts at failed Landsbanki Islands hf. The move prompted Fitch Ratings to downgrade the island’s debt to “junk” as a normalization of international relations grew more remote. Iceland’s Finance Ministry on Nov. 16 said the country may now be weeks away from a “final resolution” to the Icesave dispute as it secures broad lawmaker backing for a new accord.

Grimsson, who said Iceland is better off than Ireland because it let its banks fail and the krona slump, said an Icesave deal is only possible if it enjoys the support of the people. Following his rejection of the accord, the bill was put to a referendum in March, where it was opposed by 93 percent of voters.

“How far can we ask ordinary people -- farmers and fishermen and doctors and nurses -- to shoulder the responsibility of failed private banks?” Grimsson said. “That question, which has been at the core of the Icesave issue, will now be the burning issue in many European countries.”

‘False Dawns’

Iceland’s debt is rated Baa3 at Moody’s Investors Service and BBB- at Standard & Poor’s, the lowest investment grades. Moody’s said this month an Icesave accord would be positive for the rating.

A resolution of Icesave would be “an important step towards normalizing relations with the international financial community,” Fitch Senior Director [Paul Rawkins](#) said in a Nov. 17 e-mailed reply to questions.

Still, Rawkins said he will “remain cautious” as there have been “a number of ‘false dawns’ on Icesave.”

The government is this time targeting broader lawmaker backing to ensure a smoother passage of a new Icesave bill. The Independence Party, the largest opposition group, has signaled it may give its support to the Social-Democrat, Left-Green coalition.

Ireland, Iceland

The current draft accord reached carries a 3 percent interest rate and gives Iceland's government a nine-month moratorium on paying interest, the country's Channel 2 television station said on Nov. 15. The Finance Ministry declined to comment on the details of any talks. The accord will cost the government 40 billion kronur (\$355 million) to 60 billion kronur, the broadcaster said. The remainder would be covered by the value of Landsbanki assets.

“The most significant factor is that the British and the Dutch have now recognised that the stand they took” in previous accords “was fundamentally unfair,” Grimsson said. “Now they have moved considerably away from that position so we will have to see what becomes the final outcome.”

Kaupthing Bank hf, Landsbanki and Glitnir Bank hf failed within weeks of each other in October 2008 after they were unable to secure short-term funding. The government created new banks out of the lenders' domestic assets, ensuring the liability toward international bond holders remained with the failed commercial banks. Creditors are still owed about \$85 billion. Grimsson said this model protected the state from the kind of debts now facing the Irish government.

“The difference is that in Iceland we allowed the banks to fail,” he said. “These were private banks and we didn't pump money into them in order to keep them going; the state did not shoulder the responsibility of the failed private banks.”