

Cooperative resolution achieved on Eurosystem lending

Following the failure of the three Luxembourg-based subsidiaries of Icelandic banks (Glitnir, Kaupthing and Landsbanki) in October 2008, the Eurosystem has now recovered in full the 4 billion euros in loans extended to these banks through its monetary policy operations. Close cooperation between the Banque centrale du Luxembourg (BCL) and the Central Bank of Iceland played a key role in this successful resolution.

The monetary policy operations in which the three Icelandic banks had participated were carried out by the BCL on behalf of the Eurosystem, in full compliance with Eurosystem rules and procedures. After the three banks failed during the intensifying financial crisis, the process of realising the collateral submitted by the failed banks proved challenging, and a lengthy resolution process ensued. After nearly four years, these resolution efforts have now been successfully concluded without any losses to the Eurosystem.

The favourable outcome was facilitated by an agreement finalised in May 2010 between the BCL and the Central Bank of Iceland, which aimed at an organised restructuring of specific collateral with the objective of avoiding fire sales at distressed prices.

The mutual efforts and constructive spirit that led to the successful conclusion of this matter have created a sound foundation for ongoing close cooperation between the BCL and the Central Bank of Iceland in all fields of mutual central banking interest.

The Governor of the BCL, Mr Yves Mersch, is currently visiting Iceland at the invitation of Governor Már Guðmundsson. During the visit, Mr Mersch had a meeting with Minister of Finance Oddný Harðardóttir. Among other topics, the Governors discussed the current challenges facing the eurozone and future cooperation between the BCL and the Central Bank of Iceland.

Further information can be obtained from Már Guðmundsson, Governor of the Central Bank of Iceland, at tel: +354 569-9600