

Address

Jón Helgi Egilsson, Chairman of the Supervisory Board, at the 54th Annual General Meeting of the Central Bank of Iceland, 26 March 2015

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Mr President; Speaker of Althingi, Minister of Finance and Economic Affairs, Minister of the Interior, Directors, and Ambassadors; Ladies and Gentlemen:

I welcome you to the 54th Annual General Meeting of the Central Bank of Iceland and hereby call the meeting to order.

The current Supervisory Board of the Central Bank was elected on 5 July 2013. The Board elected Ólöf Nordal as its chairman and myself as deputy chairman. I have been acting chairman since August, and in December, when Ólöf was appointed Minister of the Interior and resigned from the Board, I took her place. On behalf of the Supervisory Board, I would like to extend our warmest thanks to Ólöf for her contribution to the Board and to wish her every success in her new position.

One of the main tasks of central banks around the world is to conduct monetary policy. The Central Bank of Iceland is no exception, as its principal objective is to promote price stability. In applying its monetary policy instruments, the Bank attempts to hold inflation as close to the inflation target as possible, as low and stable inflation is considered a reliable basis for stable long-term GDP growth. Monetary policy inherently takes the long view and can find itself at odds with short-term political priorities.

In the past twenty years, central banks around the world have gained more independence, while at the same time they have been entrusted with clearly delineated tasks and objectives. In 2001, the Central Bank of Iceland was accorded a level of independence comparable to that in the most progressive countries in the world. It was given full independence to apply its policy instruments so as to “promote price stability.”

In 2013, the Central Bank Act was amended to include the promotion of financial stability as the Bank’s other main objective. This was consistent with the global trend among central banks, as it was widely agreed that inflation targeting had been overemphasised prior to the financial crisis of 2008 and that financial stability merited increased attention. Concurrent with this, discussions of central bank independence continued, as independence was limited primarily to full control over monetary policy conduct. The circumstances that call for independence are not necessarily considered to apply to various aspects of financial stability, which could require that central banks collaborate more closely with governmental authorities and public institutions.

The idea of central bank independence therefore applies primarily to monetary policy conduct and inflation targeting.

After Iceland's banks collapsed in autumn 2008, the tasks entrusted to the Central Bank grew in scope and number, including the administration of assets and claims and the surveillance of the capital controls. In addition, the Bank is required by law to consult with the Government on all matters pertaining to the exchange rate. Naturally, the Bank participates in the liberalisation of the controls together with the Government.

But the objectives lying behind the paths chosen during the liberalisation process could have profound effect on our society for a very long time, and they are political in nature. The ultimate responsibility for the process must therefore lie with our democratically elected Government.

As I have already said, the Central Bank of Iceland has two principal objectives: to promote price stability and financial stability. But the Bank has a range of other important tasks to perform, including tasks related to financial infrastructure, maintenance of the foreign exchange reserves, and support for the Government's economic policy, as long as it does not conflict with the price stability objective.

It is clear to me that the Bank was successful in achieving its main objectives in 2014. Inflation subsided, and moreover, inflation expectations had fallen to target by the year-end.

The Bank set new prudential rules aimed at preparing the commercial banks for capital account liberalisation. A new Act on a Financial Stability Council was passed, and the Bank plays a central role in the Council's activities and those of the Systemic Risk Committee, which works for the Council.

The Bank's Annual Report, published today, gives an overview of the wide-ranging activities of the Central Bank. The issuance of a variety of publications on economic affairs and statistics is and always has been an important part of the Bank's work.

Today the Minister of Finance and Economic Affairs ratified the Bank's consolidated accounts for 2014 with his signature. I would like to give you a brief overview of the operating performance and balance sheet of the Central Bank and its subsidiaries during the year.

According to its profit and loss account, the Bank recorded a profit of 11.2 b.kr. in 2014, as opposed to a loss of 8.3 b.kr. in 2013. Exchange rate movements make a strong impact on the Bank's operating performance. In 2014 there was an exchange rate gain amounting to 6.2 b.kr., as opposed to a loss of 12.3 b.kr. the year before. The exchange rate gain in 2014 is due in large part to the appreciation of the US dollar, as the majority of the Bank's foreign-denominated assets net of liabilities are in dollars.

The Bank's assets totalled 954 b.kr. at year-end 2014, as opposed to 1,002 b.kr. the year before. The majority of the Bank's assets are foreign reserve assets. The foreign exchange reserves amounted to 530 b.kr. at the end of the year.

The Central Bank of Iceland Holding Company hf. (ESÍ) administers appropriated assets and those claims against the estates of the failed financial institutions that reverted to the Central Bank after the banks collapsed. During the year, however, further steps were taken towards the liquidation of the company's assets. From 2009 through year-end 2014, its asset portfolio shrank from 490 b.kr. to 209 b.kr., while its equity has grown from 1 m.kr. to about 29 b.kr.

With a new agreement on callable equity, the Treasury has pledged, based on the authority contained in the National Budget, to contribute capital in the amount of 52 b.kr. to the Central Bank in the form of marketable assets if the Bank should call it in so as to fulfil its minimum requirements for paid-in capital.

Concurrent with this, an agreement was made to amend the terms of the bond issued by the Treasury in late 2008, when it took over a portion of the Bank's collateralised and overnight loans.

The Bank's capital was reduced by about 26 b.kr. during the year, and that amount was allocated to the reduction of the bond principal. The principal of this bond has now been cut nearly in half, from 270 b.kr. at the time of issuance to 145 b.kr. at the end of December 2014.

The Bank's profit after the allocation to the reserve fund is to be distributed to the Treasury if the Bank meets its capital adequacy criteria. The Supervisory Board now approves each year the Bank's decision on capital adequacy criteria, which reflects its need for equity and interest-bearing assets. The Bank fulfils these criteria for 2015 and therefore will transfer to the Treasury its entire profit in excess of the allocation to the reserve fund. The amount of the transfer is 1.9 b.kr.

The transfer to the Treasury is lower for 2014 than for previous years. But this must be viewed in the context of the 26 b.kr. reduction of capital, which can be considered a form of dividend. During the period following the failure of the banks and the financial restructuring taking place at the turn of the year 2008/2009, the Central Bank has made transfers to the Treasury for dividends, profits on foreign currency transactions and auctions, and taxes on the companies it owns. These transfers total some 30 b.kr. – or 56 b.kr., if the above-mentioned capital reduction is included. This is no small amount, as it equals about 2.8% of year-2014 GDP.

In recent years, the Bank's internal audit procedures have been strengthened. Appraisals have been carried out on various functions and operational units, and the findings presented to the Supervisory Board. Monitoring of this type is an element in increasing transparency and accountability, which counterbalances the greater independence that central banks have been accorded.

In 2014, the Central Bank employed 177 members of staff. During the year, 12 employees were hired and 14 left the Bank. I would like to take this opportunity to thank all staff members for a job well done during the year.

Ladies and gentlemen: In closing, I wish to thank the Supervisory Board, the Governor, and the Deputy Governor for a successful cooperative relationship in 2014. I will now turn the floor over to Bjarni Benediktsson, Minister of Finance and Economic Affairs. Following his speech, Governor Már Guðmundsson will address the meeting.