

Address

Ólöf Nordal, Chairman of the Supervisory Board
delivered at the 53rd Annual General Meeting of the Central Bank of Iceland, 27 March 2014

Honourable Prime Minister; Minister of Finance and Economic Affairs, Directors, and Ambassadors; Ladies and Gentlemen:

I welcome you to the 53rd Annual General Meeting of the Central Bank of Iceland and hereby call the meeting to order.

A new Supervisory Board was elected on 5 July, following last spring's Parliamentary elections, and it is an honour for me to be chosen to act as its chairman.

Nearly six years have passed since October 2008, when Iceland's commercial banks collapsed, and we are still addressing a number of problems that stem from those events. The Central Bank has worked systematically on many fronts in order to ensure that the Icelandic economy is restored to the strength and growth required to guarantee Icelanders a good standard of living and a strong competitive position internationally.

The Central Bank's primary objective is to promote price stability, in line with its inflation target. Significant progress has been made in this area in recent months – progress that must be followed up with systematic application of the Bank's policy instruments consistent with Iceland's economic policy in other areas.

While the progress that has been made in containing inflation is welcome, there are a number of complex tasks ahead: lifting the capital controls, maintaining low inflation, and ensuring that our financial system remains stable in the long run.

One of the Bank's more familiar roles to the public is that of issuer of banknotes and coin. A new 10,000 kr. banknote was launched in 2013, and some 600,000 of them are now in circulation.

Another of the Bank's roles centres on statistical analysis and issuance of a range of economics publications – one of the Bank's main functions for the past half-century. A number of interesting publications and statistical analyses were released by the Central Bank last year, and I encourage all of you to visit the Bank's website and partake of the information available there.

The *Annual Report* released today gives a brief description of the many and varied activities taking place within the Bank.

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 the profit and loss account, the Bank generated an operating loss in the amount of 8.3 b.kr. in 2013, as opposed to a profit of 14.3 b.kr. in 2012. Excluding exchange rate differences and income tax, the Bank's operations generated a profit of 15.9 b.kr. in 2013, as compared with a profit of 12.1 b.kr. in 2012. Exchange rate losses for the year totalled 12.3 b.kr., as opposed to exchange rate gains in the amount of 4.7 b.kr. in 2012. The change is due to the substantial

appreciation of the króna during the year and the fact that the Bank's foreign-denominated assets exceed its foreign-denominated liabilities.

The Central Bank of Iceland's balance sheet still shows signs of the difficulties following the failure of Iceland's banks five and a half years ago. This can be seen in the size of the consolidated annual accounts, among other things, which is attributable to the activities of the Central Bank of Iceland Holding Company. In recent months, however, important steps have been taken towards divesting the company's assets.

The Central Bank's assets totalled just over 1,002 b.kr. at the end of 2013, as opposed to a little over 1,068 b.kr. in 2012. Of that total, the holding company's balance sheet is about 300 b.kr. Assets in excess of liabilities – the Bank's equity – totalled 89.8 b.kr. at the year-end, after declining by 8.3 b.kr. from the previous year.

The 2013 income tax liability deriving from companies owned by the Bank amounts to just over 2.1 b.kr. The transfer to the Treasury, calculated in accordance with the relevant regulatory instruments, amounts to about 6.5 b.kr., and the Treasury's share in 2013 auctions totals 1.1 b.kr. The total amount paid to the Treasury therefore comes to 9.7 b.kr.

When evaluating the Bank's operating performance, it is important to bear in mind that the Central Bank's role is not to make a profit. The Bank's profit can increase even though the overall economic climate is deteriorating, and conversely, a smaller profit can be a sign that the economy is approaching equilibrium.

In recent weeks and months, work has been done towards placing the financial interactions between the Treasury and the Central Bank on a sound footing. The objective of this work has been to safeguard the Bank's financial independence and ensure that it is able to achieve its objectives. The work relating to these matters is now in the final stages.

Honoured guests:

The Supervisory Board welcomes all discussion of the activities and policies of the Central Bank of Iceland and its directors. Constructive criticism can be a vehicle for progress and is necessary to all social discourse. But it is important to bear in mind that success in monetary policy and financial institution activities is based primarily on trust – both creditworthiness and public trust in the Bank's activities. In the work that lies ahead, the Supervisory Board will make every attempt to enhance confidence in the Central Bank still further, in cooperation with the Government, the business community, and the Icelandic people.

I would like to take this opportunity to thank the Supervisory Board for an effective collaborative relationship over the past several months. I would also like to thank the staff, Governor, and Deputy Governor of the Central Bank for fruitful collaboration during the past year.

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.