



25 March 2020

Address

Gylfi Magnússon, Chair of the Central Bank of Iceland Supervisory Board, at the 59th Annual Meeting of the Central Bank, 25 March 2020.

Madame Prime Minister, Governor, and other guests: I hereby call to order the fifty-ninth annual meeting of the Central Bank of Iceland. As everyone can see, we are holding this meeting under vastly different circumstances than usual. Here in the Central Bank building are only a very few participants, and instead of our usual format, we are transmitting today's proceedings via webcast. This is one of many measures that have been taken within the Bank in response to the COVID-19 pandemic that is raging across the globe.

As before, the Supervisory Board's role is to monitor the Central Bank's compliance with the statutory provisions applying to its activities and to endorse various decisions and rules laid down by the Bank.

In 2019, the Bank's Supervisory Board was chaired by Gylfi Magnússon. Other members were Thórunn Guðmundsdóttir, Sigurdur Kári Kristjánsson, Frosti Sigurjónsson, Bolli Hédinsson, Una María Óskarsdóttir, and Jacqueline Clare Mallett. The Supervisory Board held 19 meetings over the course of 2019.

As always, the main focus of the Central Bank's work was to conduct monetary and financial stability policies. Furthermore, a great deal of work was dedicated to amending the Act on the Central Bank and preparing for the Bank's merger with the Financial Supervisory Authority, which took effect at the beginning of this year. I would like to take this opportunity to welcome Financial Supervisory Authority staff members to the merged institution.

The statutory provisions on the Supervisory Board were amended somewhat as well. This will affect its work and structure, although the Board's fundamental role will not change.

We passed a turning point late last summer, when Már Guðmundsson stepped down as Governor after 10 years in the position, and Ásgeir Jónsson took the reins. The Governor generally attends Supervisory Board meetings.

According to the legislation in force in 2019, the Central Bank's main objective was to promote price stability. The Bank was also tasked with promoting financial stability. Inflation was above the 2½% inflation target at the beginning

of the year, measuring 3% or slightly higher, but it fell decisively towards the end of the year and measured 2% in December.

The Monetary Policy Committee kept the Bank's key interest rate unchanged early in the year but then began a monetary easing cycle, starting with a rate cut of 0.5 percentage points in May. The Committee lowered rates at its next four meetings as well, for a total rate cut of 1.5 percentage points in 2019 as a whole.

Economic uncertainty began to mount in 2019, although it was not apparent at the time how profound an impact the COVID-19 pandemic would have on society and the economy this year. Risks in the airline sector materialised in the first half of 2019 with the collapse of WOW Air. As the year progressed, economic prospects grew ever more uncertain, both in Iceland and abroad.

Growth in corporate debt slowed in 2019, and household debt grew modestly. The position of the large commercial banks was sound at the year-end: their capital ratios were high in historical and international context, and their liquidity position was well above the regulatory minimum. One of the Central Bank's main tasks is to maintain Iceland's international reserves, which have been quite sizeable in recent years. In 2019 the reserves grew by nearly 86 billion krónur, to 822 billion krónur by the year-end. The increase in krónur terms was due primarily to exchange rate differences.

The Central Bank of Iceland communicates and conducts transactions with international institutions in its field, including the International Monetary Fund, the Bank for International Settlements, and the Organisation for Economic Co-operation and Development, as well as foreign central banks and financial supervisory bodies.

In accordance with an agreement made with the Ministry of Finance and Economic Affairs on 29 January 2019, the Central Bank oversees Treasury foreign borrowing and conducts domestic auctions, buybacks, and Treasury bond redemptions. It also executes primary dealer agreements and oversees securities lending to primary dealers. The Bank undertakes risk management and debt management relating to the Treasury loan portfolio, as well as administering Treasury guarantees and carrying out other related tasks.

Several changes were made in the Bank's tasks during the year. The Bank carried out capital controls surveillance; i.e., it supervised the implementation of the Foreign Exchange Act, no. 87/1992, and the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, sometimes called the Offshore Krónur Act. The work required in this area had contracted sharply in the years beforehand, as the capital controls had been all but fully lifted, although work on guidelines, supervision, and investigations remained.

The Bank's Capital Controls Surveillance Unit, established in September 2009, was disbanded as a separate department within the Bank at the beginning of May 2019, whereupon many of its remaining tasks were transferred to the Financial

Stability Department. Furthermore, the Central Bank of Iceland Holding Company ehf., ESÍ, and two of its subsidiaries were wound up in the first half of the year. ESÍ was established at the end of 2009. Its balance sheet at the time was about 491 b.kr. The Central Bank financed the company in full, and its equity was initially 1 m.kr. Upon its dissolution, the company had paid the Bank and the Treasury just over 652 b.kr.

According to the profit and loss account, the Central Bank recorded a profit of just over 22 b.kr. in 2019, as compared with a profit of over 35 b.kr. in 2018. Most of the profit is attributable to a positive exchange rate difference on the Bank's large international reserves, due to the depreciation of the króna during the year. The Bank's operating expenses totalled just over 4.2 b.kr., including 2.9 b.kr. in wages and related expenses, which increased by 2.3% year-on-year. Other operating expenses rose by 11%, mainly because of the merger with the Financial Supervisory Authority. Net interest expense amounted to just over 9 b.kr., around 4 b.kr. less than in 2018.

The Bank's assets totalled 840 b.kr. at the year-end, about 95% of them foreign. Equity increased from 58 b.kr. to 82 b.kr., and the year-end capital ratio was 9.8%, as opposed to 7.7% at the end of 2018.

At the end of 2019, the Bank employed 177 members of staff, four fewer than in 2018. The gender ratio remained relatively even, with 89 men and 84 women employed by the Bank at the year-end. At the beginning of the year, the Bank received formal equal pay certification in recognition of its wage structure, which fulfils the requirements of the equal pay certification standard. An equal pay analysis conducted within the Bank showed that there was no unexplained statistically significant wage gap between the sexes at the time.

Although the Central Bank of Iceland's basic functions have not changed radically since its establishment in 1961 — i.e., to promote price stability and secure the foundations and efficacy of the financial system — the execution of tasks and the organisation of the Bank have changed at somewhat regular intervals, such as with statutory amendments in 1986, 2001, 2009, and 2013 in connection with interest rate liberalisation, inflation targeting, establishment of the Monetary Policy Committee, and increased emphasis on financial stability.

The Central Bank's tasks and organisational structure changed again after the merger with the Financial Supervisory Authority at the beginning of 2020. The merger process has been demanding for Board, management, and staff members alike. The Bank's role has been expanded, and the Supervisory Board is entrusted with ensuring that all activities are conducted in accordance with regulatory requirements. In the current environment, which tests the resilience of Iceland's financial market infrastructure, it is even more critical than usual that the Central Bank should have the capital, equipment, tools, and personnel it needs to conduct the business and communications required of a central bank.

The statutory amendments that led to the merger of the Central Bank and the Financial Supervisory Authority at the beginning of this year necessitated changes to the Bank's senior management structure. The main change in organisational structure is the establishment of three committees entrusted with applying the Bank's authorisations and policy instruments in the fields of monetary policy, financial stability (macroprudential policy), and financial supervision. The Governor still directs and is responsible for the Bank's activities and is authorised to take decisions on all matters not entrusted to others by law. Three Deputy Governors now oversee the Bank's activities in their appointed areas and are responsible for preparing the work of the Bank's legally mandated committees. The Deputy Governors serve on the committees and take decisions jointly with the Governor as provided for by law. One Deputy Governor oversees matters relating to monetary policy; the second, matters relating to financial stability; and the third, matters relating to financial supervision.

The new organisational chart, which reflects the Bank's tasks under the new Central Bank Act, took effect at the beginning of the year. The Bank now has seven core departments and four support departments. The organisational chart also includes the centralised General Secretariat for the merged institution. Following the merger, Bank staff now number around 290.

I would like to take this opportunity to thank Central Bank staff members for successful collaboration in 2019. I would like to thank my fellow Supervisory Board members, the Deputy Governor who served during the year, the Supervisory Board secretary, and the Internal Auditor for fruitful cooperation. And special thanks go to the two Governors who served in 2019: Már Gudmundsson and Ásgeir Jónsson. I would also like to take this opportunity to thank Már for his many years of service to the Bank. In a moment Ásgeir will speak, giving us a backward glance and a glimpse of the near future, but first let us hear Prime Minister Katrín Jakobsdóttir.