



February 9, 2009

The Prime Minister of Iceland  
Prime Minister's Office  
Stjórnarráðshúsid, Laekjartorg  
101 Reykjavík

At around the dinner hour on February 2, 2009, a letter was sent by messenger from the Prime Minister to the Chairman of the Board of Governors of the Central Bank of Iceland at the latter's home. The Chairman's place of work, of course, is the Central Bank, and this was a working day. The Chairman's wife, who was alone at home because the Chairman was abroad on business for the Bank, received the letter and laid it aside unopened, as it was addressed to the Chairman of the Board of Governors. An hour later, she learned from a television news programme that the Minister had sent the Governors of the Bank letters requesting that they resign immediately from their positions with the Bank! If they did not – or actually, in any case – she would present a legislative bill guaranteeing their removal and have it passed. Correspondence of this type, containing poorly disguised threats against government officials, is unique, not only in Iceland but in the Western world. The laws that are designed to guarantee the independence of the Central Bank and prevent political attacks on the Board of Governors have been violated. The responsibility borne by the Minister is therefore great indeed.

I contacted the Prime Minister by phone on the morning of February 3 and informed her that I would not be back in Iceland until late on Thursday, February 5, and that I would respond to her letter immediately after the weekend. The Minister raised no objection.

The Minister's letter shows all the signs of having been written outside the Ministry, whether at political party offices or elsewhere. It violates all of the conventions pertaining to official correspondence of this type. It is now a matter of general knowledge that the Permanent Secretary of the Prime Minister's Office and chief liaison with the International Monetary Fund programme was forced out of the Ministry in an unprecedented fashion. As is well known,

the Prime Minister is also the nation's minister of economic affairs. The Permanent Secretary who was summarily removed from the Ministry is one of Iceland's best-known economists and a former Director of the National Economic Institute. The person replacing him is an attorney, yet in the Prime Minister's letter, it appears that the principal fault to be found with the Chairman of the Board of Governors of the Central Bank is the fact that he is an attorney and not an economist.

It has never been customary to publicise letters sent to government officials before the official concerned has had an opportunity to answer them – let alone before he has had an opportunity to read them. Thus it seems that the letter in question was conceived solely as a vehicle for propaganda and threats, and that is lamentable. Over the past several weeks, the Prime Minister herself and her fellow ministers have referred repeatedly to the need “to clean up” various official bodies that they proceed to mention by name. This phraseology was fairly common in certain arenas during the last century, but it is astounding that governmental ministers should express themselves this way towards officials in Iceland at the beginning of the 21<sup>st</sup> century.

The Governors of the Central Bank all received identical letters. However, the enumeration of faults seemingly aimed at the Chairman of the Board of Governors is also directed without modification against his colleagues in the Bank: They should also resign immediately, and apparently, the chief reason they should do so is that the Chairman of the Board of Governors is an attorney and not an economist! An informal survey has not revealed that other countries stipulate a particular university degree as a prerequisite for the position of central bank governor. It is widely expected, however, that central bank governors possess extensive knowledge of economic and monetary affairs. It is absurd to assume that a university-educated attorney with more broad-based experience in the administration of economic and monetary affairs than most people can claim is less equipped to carry out the duties of a central bank governor than a person who can present a particular academic degree – for example, a degree in monetary economics. It just so happens that, at the present time, public discussion implies that monetary economics may not be resting on solid foundations after the economic collapse that has occurred all over the globe. In these circumstances, it matters not whether the

leaders concerned are Nobel prize-winners or can cloak themselves with other, less impressive credentials.

The legislative bill with which the Prime Minister threatened the Board of Governors has now been presented. Unfortunately, the bill in question is so riddled with flaws that there is no chance it will be passed unamended by Parliament. If the aim is to amend the Act on the Central Bank, it must be done with the meticulous care and preparation that characterised the Act passed in 2001, which garnered the undivided support of all political parties and was approved unanimously.

Acrimony towards an old political nemesis with whom some feel they have a bone to pick must not be allowed to blind people to the point that they cannot guarantee that one of the nation's most important institutions is protected by a legal framework constructed conscientiously and in a spirit of relative unity, both within Parliament and outside it. A few weeks ago a serious administrative error was made when a government minister who abdicated his position left the Financial Supervisory Authority ungoverned as regards both board of directors and senior management – at the most vulnerable time in the financial history of Iceland. That error has been harmful. The Minister bears considerable responsibility for ensuring that such things do not happen. At times like this, it is more critical than ever before to maintain steadfastness and continuity in the administration of the nation's most important institutions.

The Parliament of Iceland has recently agreed to appoint a special investigative committee to examine the run-up to the banking collapse. Why was the Minister not willing to wait for the opinion of that committee? Why in the world should an interim governmental cabinet – and a minority cabinet at that – act in the manner that it has? No satisfactory explanations have been given for this. Only the unsatisfactory explanations remain.

There are numerous reasons for the calamity that has struck the economy in Iceland and elsewhere. The topic will be discussed in detail for a long time to come. Without doubt, however, an important factor in that catastrophe is the fact that the old-fashioned values of honesty, conscientiousness, and prudence gradually yielded to less desirable qualities. The Prime Minister has now managed to rout Ingimundur

Fridriksson out of the Central Bank. Ingimundur is the embodiment of an honest and trustworthy banker and an official of impeccable integrity. Upon receipt of his resignation, the Prime Minister said she was grateful for his willingness to contribute to her cause! But in his response, which she interprets as support, Ingimundur expressed his deep regret at the unjust and ungrounded insinuations in the Prime Minister's letter, which he considered an undeserved attack on his professional integrity and honour! If this act proves to be the salient feature of Jóhanna Sigurdardóttir's career as Prime Minister – the ouster of a dedicated professional from a job that he had carried out with exemplary diligence and care – then she has my sympathy.

#### Conclusion:

When I realised what sort of letter had been sent to my home and publicised in a propagandising manner before I had even had a chance to read it, and when it became clear that a legislative bill had been presented in order to follow up on the threat in that letter, my first instinct was to leave the letter unanswered. For obvious reasons, I bear the deepest respect for the office held by the current Prime Minister. And in spite of the transparent flaws in the Prime Minister's arguments, I do not wish to refrain from making my position on the matter known. On October 20, 2005, I was appointed to carry out the position of Chairman of the Board of Governors of the Central Bank for a specified term. I have made every effort to fulfil the duties of that position to the best of my ability. It is of great satisfaction to me that even those who desire most to attack me have been unable to find any substantive fault with my work and have actually stated that my work does not occasion criticism. According to them, I must simply leave for non-substantive reasons.

It will become clear to an ever-increasing number of people that, over the past few years, the Chairman of the Board of Governors personally, and the Board of Governors jointly, forewarned repeatedly that the nation's banking affairs were headed for collapse and urged the responsible parties to take action in time. It is noteworthy that a minister from among the group who did not listen and who herself did not lift a finger to stem the tide of the developing crisis should now act in the way that she has chosen to do.

For my part, I have never abandoned any task that I have agreed to take on, and I do not intend to do so now.

Respectfully yours,

Davíð Oddsson  
Chairman of the Board of Governors  
Central Bank of Iceland