

Iceland Does It Again! Icesave Repayment Scheme Rejected

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Dr. Pitchfork in IMF, bank bailouts, iceland, iceland, icesave, imf, sovereign default



Iceland **voted yesterday** in a second referendum on the proposed Icesave deal, **rejecting it** by a 57% to 43% margin. UK and Netherlands depositors were bailed out by their own governments in 2008 when the Icelandic bank failed, and now the British and Dutch want Iceland to reimburse them for approximately

\$5B.

An earlier deal had been overwhelmingly rejected by 93% of voters last year. The current proposal would extend Iceland's repayment out to 2046 and reduce the interest rate to 3.3%. Plus, a portion of the total \$5B would be covered by the sale of Landsbanki (aka Icesave) assets, with taxpayers paying the rest. As far as things go, it wasn't a particularly bad deal. But it's still a bailout and the people of Iceland are having none of it.

Bloomberg reports the comments of a Reykjavik shopkeeper who says a "No" vote,

"will be a wakeup call for the citizens in other countries. They'll realize that there's no fairness in pushing bank losses onto taxpayers when things go sour, but pocketing the gains when everything is going well. A big fat 'no' from Iceland will drive that point home."

The party line from the EU and the IMF, though, is that if voters reject the deal, then the Icelandic government will not be able to access the international bond market. Moreover, the ratings agencies have already downgraded Iceland government bonds to junk. Funny thing is, CDS on Icelandic debt are running at about half of what it costs to insure Irish or Portuguese bonds -- and they've gone full speed ahead with their bank bailouts. As for that, I'd put my money on the debt markets and Icelandic voters before I'd trust Moody's or the IMF. We've said it before, but the lesson is clear: if you swamp your country with bank bailout debt, you will likely run into a sovereign default. If, on the other hand, you let bank creditors twist in the wind (as they should) you will actually be in much better fiscal shape than you would be otherwise, the IMF be damned.

Further Reading...

- **[Iceland President Blocks \\$5 Billion Icesave Bailout: "The People Should Decide"](#)**
- **[Banks Just Too Big To Fail? Iceland Proves Otherwise; After Punishing Creditors, Economy Returns To Strong Growth](#)**
- **["Iceland, Fight This Injustice" by French MEP Eva Joly \(The Guardian\)](#)**

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