



**Speech by
the President of Iceland
Ólafur Ragnar Grímsson
The Bourse Club
Helsinki
24 May 2006**

Distinguished business leaders,
entrepreneurs,
ladies and gentlemen:

In recent months we have witnessed a growing interest in the success of Icelandic business ventures – in the evolution of companies that a decade ago were restricted to the small Icelandic market but have now become prominent European and even global players in fields that earlier were unknown territory for Icelanders: in the operations of banks and financial institutions, retail, fashion, pharmaceuticals, prosthetics, fast food, telecommunications, computer software, to mention only a few.

Many have found this phenomenon difficult to comprehend, and some far-fetched explanations have been offered why a small nation in the North Atlantic has attained such decisive success.

It certainly is a fascinating story which offers important insights into some of the underlying global trends of our times, since the explanations of the Icelandic success cannot be restricted to factors relating to our country alone. However, our heritage and training, our culture and home market, have provided a valuable advantage when faced with competition from others.

I will attempt here today to offer you an insight and some explanation of this success, a vision of where the Icelandic journey is heading, to explain whether it can indeed continue and lead to even more impressive results.

The transformation of the world, the changes that have taken place both in Europe and the wider world in the last two decades have been very favourable to Icelandic companies and to a new generation of entrepreneurs and bankers, many of whom were trained at prestigious business schools and prominent universities in the United States, Britain or the Nordic countries.

In recent years, four international trends and transformations have combined to create opportunities for Iceland and other small European states.

First, the end of the Cold War and the democratic and economic reforms in Central and Eastern Europe.

Second, the globalization of trade and commerce which in a relatively short time has made the entire world our playing field.

Third, the revolution in information technology has enabled our business leaders to establish networks of management and collaboration across continents eliminating the hindrances that distance and the small scale of our economy had previously created.

Fourth, especially in recent years, the availability of financial resources from banks and investment funds in different parts of the world has made access to loans and financial partnerships relatively easy. In this respect we have, like others, benefited from the favourable financial climate.

Of course, these fourfold transformations have not only created opportunities for Iceland. Many small European states have in recent years turned out to be more successful than some of the large continental countries. For example, Slovenia, Slovakia, Estonia, Latvia, Lithuania, Luxembourg and others, along with Iceland of course, have shown that the 21st century could indeed become the most prosperous time that small states have ever encountered.

Never before have they enjoyed such potential for prosperity and progress. They have become profitable basis for business innovations, because there it is easy to see how different elements link up, how to establish cooperation between respective players, gain access to information and experience. The small state can serve as a kind of laboratory or research station in precisely those sectors that are increasingly coming to dominate the economy of our times.

New companies can now emerge into the global market regardless of the location of their home base, and soon have the whole world as their market region. Iceland has shown how this can be done – how a small state can make an organized and successful response to globalization and thereby boost its own business success.

Previously, the Icelandic experience in world markets was restricted to two sectors – fishing and aviation. Both provided us with entrepreneurial and marketing experience that proved to be advantageous when new times brought new opportunities, provided both a legacy and an inspiration, experience and training.

On numerous occasions I have also emphasized how Icelandic society, including our history and traditions, has produced a modern business culture that has proven to be very favourable when meeting the competitive challenges of our times:

- Iceland's strong work ethic, which is our heritage from the old society of farmers and fishermen.
- A dominant element of personal trust, which enables Icelanders to work together in an extraordinarily effective way because they are nurtured in communities where everyone knows everyone else.
- The inclination to focus on results rather than a process: to go straight to the task and do the job in the shortest time possible.
- The absence of bureaucracy and our lack of tolerance for bureaucratic methods. Perhaps because there are so few of us, we have never really been able to afford extensive bureaucratic structures.
- The Icelandic emphasis on forming small groups of operators who work closely and strategically together, creating a fast-moving network of key decision-makers who can close a deal more quickly than those who are used to working within larger and more bureaucratic corporate structures.
- An old-fashioned entrepreneurship where the boss himself or herself stands on the front line, taking responsibility, leading the team, giving the company a visible, personal face.
- The importance of personal reputation, partly rooted in the medieval Edda poems that emphasize that our wealth might wither away but our reputation will stay with us forever.
- The Icelandic market, although small, has turned out to be an effective training ground because it is so competitive – perhaps more so than many other European markets.
- Finally, due to our smallness, we don't travel the world with the extra baggage of ulterior motives or big-power interests rooted in military, financial or political strength. No one is afraid to work with us. Some people even see us as fascinating eccentrics who can do no harm.

These elements, which constitute strands in the modern Icelandic business culture, have enabled entrepreneurs to succeed in different fields: not only in fishing and aviation but also in banking and finance, retail and fashion, telecommunications and pharmaceuticals, prosthetics and technology, ready-made food, computer software and many more.

The pillars of the Icelandic business success have now been placed in so many different fields and been strengthened by foundations in so

many parts of the world – in Western and Eastern Europe, in America and Asia – that its future fate has become closely interwoven with the state of the global economy.

So long as the world continues to prosper, the Icelandic endeavours will remain on course – expanding and deepening their marketing positions in different parts of the world, gathering increased strength for future advances. Only a major recession in the global economy could derail the Icelandic journey.

Of course, some enterprises will from time to time be slowed down, and a few could even fail, as is the nature of any successful capitalistic economy, but on the whole the range and variety of Icelandic enterprises have now produced a solid, strong global network with reliable and firm links all over the world.

The willingness of China and India to cooperate with Iceland is further evidence of how positive the future outlook has become.

A year ago, representatives of over 100 Icelandic companies accompanied me on my State Visit to China. The goodwill of the Chinese leadership and the Chinese business community enabled many of these Icelandic companies to establish strategic relationships with Chinese partners, aimed at joint advances in the global market.

Two weeks later, the President of India came to Iceland – the first State Visit by a president of India to a Nordic country – and he expressed strong interest in collaboration with Iceland. A good example of what an Icelandic-Indian axis could produce is the pharmaceutical facilities in India, which helped to make the Icelandic pharmaceutical company Actavis the fourth-largest generic pharmaceutical company in the world.

Yes, the future does indeed offer fascinating opportunities – and the growing strength of the Icelandic banking sector will, as before, play a crucial role, both in itself and by providing valuable connections to the international banking community.

The three leading Icelandic banks – Kaupthing, Landsbanki and Glitnir – are amongst the fastest growing banks in the world. And the largest of the three, Kaupthing, has already established a pivotal position in Northern European banking.

It is worth reflecting on how the nature of banking seems to offer small states favourable opportunities, giving them a competitive advantage both now and in earlier times. We have witnessed the success of Switzerland and Luxembourg, and how Lebanon became the banker of the Arab world before military conflicts hampered its further growth. And let us not forget the city of Florence in medieval times, which then had a population similar to the size of modern Iceland.

In the 1990s the early success of Icelandic financial institutions was helped by the solid pension funds that the leaders of the Icelandic trade unions and the employers' associations had the wisdom to establish some

decades earlier, making the Icelandic pension system one of the strongest in the world.

In recent years, Icelandic banks have facilitated partnerships between Icelandic companies and many European and international banks as well as other financial institutions.

We are often asked, especially by aggressive reporters: “Where does your money come from?” – and it is often implied that there is something dubious or shady about the origin of Icelandic financial strength.

A British journalist asked that question at a press conference called by Bakkavör, the Icelandic ready-made food company, when it had acquired Geest and consequently became the largest ready-made food company in Britain. The answer was very simple: "It comes from Barclays Bank.”

Indeed, numerous foreign banks have played an important role in financing Icelandic endeavours in different parts of the world: Deutsche Bank, Credit Suisse, JP Morgan, Societe Generale, Royal Bank of Scotland, HSBC, Barclays, UBS, Sumitomo, ABN Amro, Lloyds, Bank of America, Citibank, Morgan Stanley; and the list is quite a bit longer.

This impressive financial network is in itself a vote of confidence in the Icelandic business voyage – a demonstration of trust that we value highly.

Admittedly, there have recently been conflicting reports about the health and viability of the Icelandic banks and the Icelandic business community, as well as about the Icelandic economy itself. It is however a sign of how Iceland’s role in the global economy has changed and that the link between these three instances is weaker than it used to be. There could be macroeconomic imbalances in the Icelandic economy without such situation saying anything about the viability of Icelandic business ventures abroad. The same can be said about the banks.

The Central Bank has estimated that two-thirds of outstanding loans at our commercial bank groups are to customers outside Iceland. The domestic profits of our banks might therefore fall while their foreign operations remain highly profitable and vice versa. The vulnerability of the Icelandic banking system has been reduced through diversification of the sources of income, - although this diversification increases the dependence on foreign credit and subjects the banks more to the mood swings of international capital markets.

No one denies that there are imbalances in the Icelandic economy at the moment, as witnessed for example by an unprecedented current account deficit and inflation that is well above the inflation target of the Central Bank. Part of this story has been a roller-coaster development of the Icelandic krona - first an unsustainable appreciation and then a sharp fall in recent weeks. As usual in such cases - and they have been several around the globe - the process was driven by a combination of external

developments, domestic over-optimism and actions within the Icelandic system.

It is, however, important to remember that imbalances and inflationary pressures are not new in Icelandic history. But we have weathered them before and will certainly do so again, although global financial forces play a larger role in the current episode than in the past.

Let me assure you that the present disturbances are small compared to the storms I faced when I became Minister of Finance in the late 1980s. Then we succeeded in steering the ship of state towards an era of economic stability, which we consequently enjoyed for a long period of time.

We have, however, been reminded of valuable lessons: One is that if you are a player in the global financial system, it is of paramount importance to keep foreign confidence in your financial institutions. Another is that reporting or misreporting by others can play a role.

It is worth noting that in the avalanche of reporting and evaluation to which we have been submitted in recent weeks, there is a prevailing characteristic: The greater the knowledge of Iceland and the longer the experts have followed the Icelandic voyage, the more positive, informed and optimistic the conclusions have been.

We have to admit, however, that we could be more active in explaining our case; but then you have to remember that we Icelanders make up the nation that discovered America 1000 years ago but did not tell anyone about it. We only wrote the story down in books for ourselves, in texts we alone could understand. Consequently, Christopher Columbus got all the glory when he stumbled upon America 500 years later.

Now we have to do better: to build on the tradition of storytelling, aimed currently not only at ourselves but also at others.

It is important to further the extensive knowledge and detailed understanding of the Icelandic experience; to be both transparent and open – willing to engage in dialogue with others.

Such is the essence of our work here today and I am both grateful and honoured to be able to share my reflections with such a distinguished assembly.