

Geography In The News™



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ICELAND'S FINANCIAL CRISIS

Until recently, Iceland was one of the most prosperous countries in the world. The global financial crisis of the past months, however, has hit the country particularly hard.

Iceland is an island country located in the North Atlantic Ocean just south of the Arctic Circle. Iceland is considered part of Europe, not North America. Culturally, economically and linguistically, Iceland is similar in many ways to Scandinavia. The closest landmasses to Iceland are Greenland at 178 miles (287 km) and Denmark's Faroe Islands at 261 miles (420 km).

Iceland is 39,768 square miles (103,000 sq. km) in area, slightly smaller than Kentucky. Approximately 62.7 percent of Iceland is tundra, while lakes and glaciers cover 14.3 percent of the island. Only 23 percent of the landmass is vegetated. Iceland's extensive coastline includes many *fjords*, or long, narrow submerged valleys with steep sides carved by glaciers.

Most of Iceland's settlements are located along its coast. Much of the island's interior, called the Highlands of Iceland, is rough, uninhabitable mountainous terrain. Reykjavik is located on Iceland's western coast where the Gulf Stream moderates the climate. Approximately 119,900 of Iceland's 305,000 people live in Reykjavik, which is the country's capital.

Iceland is a geologically young land and is located on the Icelandic hotspot on the Mid-Atlantic Ridge. The country has

many volcanoes, geysers and hot springs. This widespread availability of geothermal power is used to generate electricity and as a source of heat for buildings. In fact, geothermal power meets the heating and hot water requirements for over 87 percent of the country's buildings.

The economy of Iceland is similar to that of other Scandinavian countries. It has a capitalistic economy, but also has an extensive welfare system (including generous housing subsidies), low unemployment and extraordinarily even distribution of income.

With the exception of geothermal power, Iceland does not boast many other natural resources. The economy therefore depends heavily on the fishing industry, which provides 70 percent of export earnings and employs 6 percent of the work force. Iceland has extended its range of territorial waters several times since the end of the

technology and financial services were occurring. The tourism sector was also expanding.

Since its complete independence from Denmark in 1944, Iceland has enjoyed one of the highest standards of living in the world. With the latest collapse of the banking sector, however, many people are questioning whether the economy rests on sound foundations.

By the beginning of the 21st century, Iceland was a perfect example of the global credit boom. The country experienced exceptional growth as its banks expanded overseas and foreign money poured into its markets. Banks in Iceland had foreign assets worth about 10 times the country's GDP. Unfortunately, they also had debts practically equaling those assets. Icelandic businesses also had substantial investments abroad.

With the latest global financial crisis,

some of Iceland's banks are facing default on foreign loans. Iceland's currency, the *krona*, has lost more than half its value since January 2008 and banking transactions to and from the island have virtually ceased. To try to stabilize the financial system, Iceland's government assumed control of all three of the country's major banks.

Recently, news programs reported that the country could go bankrupt. The government is trying to obtain a loan from the International Monetary Fund (IMF), an international organization that oversees the global financial system and gives loans to its members as a last resort. If the IMF helps Iceland, it would be the first such loan to a western country since 1976.

Iceland is also wooing Norway, Great Britain and Japan, hoping for emergency loans. In the end, if Iceland can hold on, its economy will need a complete overhaul. It is just one more country caught up in the world's financial crisis.

And that is *Geography in the News*™. November 14, 2008. #963.

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Bankruptcy and Crisis in Iceland



Sources: <http://www.ihf.com/articles/2008/10/23/business/23icebank.php>;
http://news.bbc.co.uk/2/hi/europe/country_profiles/1025227.stm

1950s to protect its fishing industry and its main catch, the Atlantic cod.

In the last decade, Iceland's economy has diversified into manufacturing and service industries. Until recently, new developments in software production, bio-