

[Back to Article](#)[Click to Print](#)

Monday, Jan. 26, 2009

Global Financial Crisis Claims Iceland

By Jonas Moody / Reykjavik

Iceland is getting used to this. [Over the past six months](#) its currency has collapsed, its largest banks have all failed and been nationalized, and its economy has imploded. Today the tiny (pop: 320,000) nation became the first to lose its government to the global financial crisis. Addressing the press, Iceland's Prime Minister [Geir Haarde](#) announced the resignation of his cabinet and the collapse of the current coalition government. The Conservative leader said that he could not "accept the Social Democratic demand that they would lead the government."

The announcement came after three months of public protests over the government's role in the economic meltdown last October. On Jan. 20, as much of the world was glued to [President Obama's inauguration](#), a mob of riotous protesters pounded on the walls of Iceland's parliament building, denouncing the government for its incompetence. "It was heartbreaking to watch America welcome a leader who they actually revere and place all their hope in, while here we are literally banging down the government's door to get them to listen to us," says Erla Bjarnadóttir, 32, an unemployed office worker, before she returns to pounding her saucepan outside parliament. "We've lost all faith in our leaders." ([See pictures of Obama's inauguration.](#))

Last week's riot, which involved more than 2000 demonstrators who broke windows, banged on pans and drums and hurled eggs and skyr, a kind of Icelandic yogurt, at parliament and at riot police, seems to have shaken Icelandic politicians. Two days after a throng of angry protesters beset his official car on Jan. 21, Prime Minister Haarde called a press conference to reveal that doctors had found a malignant tumor in this throat and that he would step down. In an unexpected move, Haarde called for an election in May, only days after firmly and repeatedly denying the possibility of such a poll.

In the days that have followed a number of prominent officials, including Minister of Commerce Björgvín Sigurdsson and the director and board of Iceland's Financial Supervisory Authority, have tendered their resignations.

A year ago, few would have predicted such a rapid fall from grace for the affluent North Atlantic nation. Iceland topped the most recent U.N. Human Development Index and boasted one of the highest GDP's per capita in the world. But its banks, carrying massive debt loads, became early

victims of the global credit crunch. In October, in an effort to salvage the hemorrhaging economy Haarde's government negotiated a \$10 billion bail out package with the International Monetary Fund.

But as thousands began losing their jobs, public anger grew. As the Minister of Commerce Sigurdsson said in his resignation statement: "Last night I came to the realization that, for me, there is no turning back. The anger and distrust of the people is too deep for me to be able to gain their faith again."

The prime minister is now due to meet with the president to formalize the dissolution of the current government. It remains unclear whether parliament will be dissolved, or if elections will be held immediately. Another possibility is a national government with all parties participating until the May election. If the Social Democrats take control, even temporarily, they are likely to be led by Jóhanna Sigurðardóttir, who would become Iceland's first female prime minister and the first openly gay prime minister in Europe.

Protestors vow that their campaign is not over. "Of course I'm happy with today's announcements," Hördur Torfason, a spokesman for the protestors, told TIME. "But the day isn't over yet."

[See TIME's Pictures of the Week.](#)

[Read a TIME story on the crisis in Iceland.](#)

 **Click to Print**

Find this article at:

<http://www.time.com/time/world/article/0,8599,1874036,00.html>

Copyright © 2009 Time Inc. All rights reserved. Reproduction in whole or in part without permission is prohibited.

[Privacy Policy](#) | [Add TIME Headlines to your Site](#) | [Contact Us](#) | [Customer Service](#)