РОЗДІЛ 2. СВІТОВЕ ГОСПОДАРСТВО
І МІЖНАРОДНІ ЕКОНОМІЧНІ ВІДНОСИНИ

INTEGRATION TENDENCIES OF ICELAND INTO THE EU AFTER THE OUTBREAK OF THE GLOBAL FINANCIAL CRISIS AND THE IMPACT OF THEIR ECONOMIC SITUATION ON THE EU MEMBERSHIP

ТЕНДЕНЦІЇ ІНТЕГРАЦІЇ ІСЛАНДІЇ ДО ЄС В УМОВАХ РАПТОВОГО ПОЧАТКУ ГЛОБАЛЬНОЇ ФІНАНСОВОЇ КРИЗИ ТА ВПЛИВ ЕКОНОМІЧНОЇ СИТУАЦІЇ КРАЇНИ НА ЧЛЕНСТВО В ЄС

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Iceland, together with Norway, were the only Nordic states that were not the European Union members before the outbreak of the global financial crisis. Main reasons for the EU reluctance in Iceland was thriving economy together with any political limitations from Brussels, especially in fishery industry and financial sector, as well as the maintenance of national sovereignty. Before the financial crisis, Iceland benefited from the membership in the European Free Trade Association and the European Economic Area. The EFTA membership enabled Iceland free trade on industrial and fish products within member states and with the EEA accession Iceland obtained 4 freedoms of the free EU market with exemptions in fishery policy, thus its economic needs were met also without the loss of sovereignty and no further integration was necessary. However, Iceland´s approach on the EU membership changed with the outbreak of the financial crisis. Political elite was forced to apply for the EU membership in order to secure Iceland´s current economic interest – economic stabilization of the country – even if it might be possible that political and economic priorities of Iceland would be endangered. Therefore, this article will focus on the integration tendencies of Iceland after the financial crisis and the potential EU membership. We will analyze the attitude of Icelanders towards the EU integration after the outbreak of the financial crisis and the economic and political situation, as well as its application on international political direction.
Key words: *Iceland, European Union, integration, financial crisis, economic stabilization.*

Ісландія разом з Норвегією були єдиними скандинавськими державами, які не являлися членами Європейського Союзу до початку світової фінансової кризи. Основними причинами небажання вступу Ісландії в ЄС були процвітаюча економіка, політичні обмеження з боку Брюсселя, особливо в рибній промисловості та фінансовому секторі, а також збереження національного суверенітету. До фінансової кризи Ісландія користувалася перевагами членства в Європейській асоціації вільної торгівлі та Європейському економічному просторі. Членство в ЄАВТ дозволило Ісландії вести вільну торгівлю промисловою та рибною продукцією в державах-членах, а приєднання до ЄЕП надало Ісландії доступ до 4 свобод вільного ринку ЄС із звільненням від обмежень в рибогосподарський політиці. Таким чином, економічні потреби країни задовольнялися без втрати суверенітету і подальшої інтеграції. Однак, ставлення Ісландії до членства в ЄС змінилися з початком фінансової кризи. Політична еліта була змушена подати заявку на членство в ЄС з метою задоволення економічних інтересів – економічна стабілізація в країні – незважаючи на те, що політичні та економічні пріоритети Ісландії можуть опинитися під загрозою. Таким чином, дана стаття буде зосереджена на тенденції інтеграції Ісландії після фінансової кризи і потенційного членства в ЄС. Нами буде проаналізовано ставлення ісландців до інтеграції з ЄС до початку фінансової кризи, економічна і політична ситуація в Ісландії і її вплив на зовнішній напрямок політики.
Ключові слова: *Ісландія, Європейський Союз, інтеграція, фінансова криза, економічна стабілізація.*

Исландия вместе с Норвегией были единственными скандинавскими государствами, не являющимися членами Европейского Союза до начала мирового финансового кризиса. Основными причинами нежелания вступления Исландии в ЕС были процветающая экономика, политические ограничения со стороны Брюсселя, особенно в рыбной промышленности и финансовом секторе, а также сохранение национального суверенитета. До финансового кризиса Исландия пользовалась преимуществами членства в Европейской ассоциации свободной торговли и Европейской экономической зоны. Членство в ЕАСТ позволило Исландии вести свободную торговлю промышленной и рыбной продукцией в государствах-членах, а присоединение к ЕЭП предоставило Исландии доступ к 4 свободам свободного рынка ЕС с освобождением от ограничений в рыбохозяйственной политике. Таким образом, экономические потребности страны удовлетворялись без потери суверенитета и дальнейшей интеграции. Однако, отношение Исландии к членству в ЕС изменились с началом финансового кризиса. Политическая элита была вынуждена подать заявку на членство в ЕС в целях удовлетворения экономических интересов – экономическая стабилизация в стране – несмотря на то, что политические и экономические приоритеты Исландии могут оказаться под угрозой. Таким образом, данная статья будет сосредоточена на тенденции интеграции Исландии после финансового кризиса и потенциального членства в ЕС. Нами будет проанализировано отношение Исландцев к интеграции с ЕС до начала финансового кризиса, экономическая и политическая ситуация в Исландии и ее влияние на внешнее направление политики.
Ключевые слова: *Исландия, Европейский союз, интеграция, финансовый кризис, экономическая стабилизация.*

Introduction. Integration into the European Union since its establishment was always present. In every European country was the possibility of the EU membership discussed question and many countries were in favor of this step due to gaining economic benefits. However, two Nordic states – Iceland and Norway – were reluctant about the EU integration before the outbreak of the global financial crisis. In this article we will focus on economic influence on Icelandic approach towards the EU membership from the 2008.

Many years under the rule of Denmark caused that Icelanders did not want to endanger their sovereignty after reaching the independency at the end of the 2nd World War with the entrance into the international political situation and the EU reluctance in Iceland was enhanced also due to economic miracle at the beginning of 50´s. Iceland became member of the UN or NATO and in times of the Cold war secured its safety with the Agreement on defense with the US. After the establishment of the ESCS, later the EC, Althing decided to integrate into the EFTA that focused on free trade with industrial products, later with fish products and the closer economic relations with European countries secured with bilateral trade agreements.

Icelandic economic needs were met and further political integration into the EC was not necessary, since this step would have endangered the national sovereignty, as well as fishery and agricultural policy and financial sector. The closest step towards the EU integration made Iceland in 90´s with the EEA membership while meeting its above mentioned economic and political criteria. At the beginning of 21st century there was no need to deepen the integration since Iceland was the fastest growing economy among the Northern countries and its GDP has risen more than in the EU. However, with the outbreak of the financial crisis and destabilization of banking system, it´s important to examine the Iceland´s approach towards the EU membership in context of its economic situation.

Analysis of recent research and publications. The current issue of the Icelandic integration tendencies into the European Union paid attention to researchers such as Baldur Thorhallsson, Martin Hart-Landsberg, Matúš Mišík, Stefán Ólafsson or Karin Hammar and also to international organizations such as the European Commission or the EU in general, the International monetary fund, the World Bank or the Institute of International Affairs. The literature evidence about the approach of Iceland towards the EU membership is listed below.

Settings objectives. Our aim is to focus on integration tendencies of Iceland after the financial crisis and the potential EU membership. This article will also analyse the attitude of Icelanders towards the EU integration and the economic and political situation in Iceland after the crisis and its application on international political direction.

The main material research. Before the outbreak of the global financial crisis Icelandic economy soared. Within 5 years before crisis GDP has risen by 5.5% annually and the unemployment rate was lowered by 2% [7]. Economic expansion, as well as economic collapse was caused by 3 leading banks – Landsbanki, Kaupthing and Glitnir. Due to lack of regulation of capital flows within EEA countries, these banks expanded also to foreign markets, mainly to the Netherlands and the Great Britain.

Generally, Icelandic banking system was unsustainable in a long term perspective due to following factors. Before 2008 for companies and banks in Iceland worked abroad more employees than in the island and the total asset of the 3 most important banks in 2008 was approximately 10 times more than the value of GDP in Iceland [11]. Also funding of these banks in 90's was ensured by selling bonds on the EU market, later on the US market. Until the beginning of 20th century, Iceland belonged to world's most indebted country in terms of measurement of external debt to the GDP [13].

However, the position of Icelanders and Althing towards the EU membership before the outbreak of the financial crisis did not change. Social system in Iceland was on a high level and the economic growth was beneficiary for citizens and the government as well. Before the crisis, any of political parties did not directly propose the EU membership application and due to relatively stable and fast growing Icelandic economy, especially the banking system; Icelanders did not have any interest in the change of political situation, since the EU membership before the outbreak of the financial crisis might have caused the economic slowdown in the country because of significant restrictions in fishery and financial market policy.

After the outbreak of the financial crisis in the US, the economy of Iceland was hit almost immediately due to the currency connection of the small Icelandic market and sold bonds of Icelandic banks to the US. Iceland lost its investors, could not have loaned money abroad and the economy collapsed because of the demand of repayment of country's receivables. Iceland was also hit by stock and housing market bubble. Before the financial crisis, average prices have risen by more than 40% annually and housing prices have risen by 16% annually [7]. This economic development, as well as an impact of the crisis on Icelanders forced Althing to turn their international politics straight to the EU membership.

Iceland, governed by Independence Party until 2008, experienced immediate protests after the outbreak of the financial crisis. The main demand was the resignation of prime minister and his party due to lack of financial control in banking system, even if there were many economic warnings before the cri-

sis. This political party was also known for its euro-skeptic opinions and international politics focused on the membership in the EFTA and the EEA. Until the outbreak of the financial crisis, this political direction was beneficiary for Iceland in terms of achievement of as much economic advantages as it was possible in international markets, any restrictions in capital flows and fishery policy and maintenance of their national sovereignty.

Due to ongoing protests and demands for new government elections, prime minister and cabinet resigned. The new government coalition of the Social Democratic Alliance and the Left-Green Movement started with implementation of new economic rules. «Rather than trying to resuscitate existing structures and patterns of economic activity through austerity measures, it actively intervened in financial, currency, and housing markets, as well as strengthened targeted social programs that protected majority interests» [7]. The new government did not focus only on the economic stabilization of Iceland from the inside implemented reforms, their aim was also to deepen relations with the EU. The main target in international politics was to become the EU member in order to stabilize the economy, even if the possibility of endangering of Iceland´s national sovereignty might have occurred.

On the 16th of June 2009 Althing approved the EU membership application and besides the focus on implementation of new economic laws for Icelandic economic reconstruction, Althing focused on preparation of the country for implementation of the EU law to accomplish the EU membership [12]. The turnover in international politics and euroskepticism in Iceland was caused mainly by the financial and banking crisis. The aim of the new government was to recover Icelandic economy by implementation of stricter rules for banking system and deepening the EU and Icelandic business relations and thus increasing exports on the EU markets. Important reason of the EU turnover was also the EURO currency adoption. Firstly, Althing wanted to adopt the EURO without the EU membership due to the depreciation of Icelandic Krona and inability to repay loans and receivables in their currency. However, because of negative reaction of the EU, the EU integration became the only way how to adopt the EU currency. This was the main reason of the political turnover and possibility of endangering Icelandic national sovereignty, the most important historical reason of not being the member of any political organization.

Given that Iceland was already member of the EEA, it was expected that the country might have become the EU member relatively quickly, when taking into consideration the integration process of other candidate countries of the EU, economic development and the new government support of the EU membership. The European Commission proposed financial assistance for Iceland in form of IPA funding and considered Iceland as a democratic country with working democratic institutions and judiciary system. The EC also appreciated Icelandic request for an IMF help during the stabilization process of its economy and considered the financial crisis and baking system crisis as an interim situation. On the other side, the EC enforced implementation of the EU law in fields such as fishery policy, environmental policy, common agriculture policy, as well as free movement of capital and financial markets [3]. Since Iceland implemented nearly 80% of the EU law with the EEA membership, the EC perceived Iceland as ready for the EU integration and advised to cooperate with the EU in areas that were not involved in the EEA agreement, due to whose Iceland did not want to become a member of the EU and because of these policies Iceland reached the highest GDP growth among the Northern countries before the financial crisis.

But after these EC recommendations about improvement in disputed areas, process of the Icelandic integration into the EU slowed down rapidly, since Iceland did not show an interest to make concessions in fields as fishery and agricultural policy. With the new government, economic stabilization and financial support from IPA, Althing as well as Icelanders became reluctant about the EU membership again. One of their main objectives of the EU membership was adoption of the EU currency, what became almost impossible, due to any compromise in fishery and agricultural policy, as well as in financial markets area between Althing and the EC. The former European Commissioner Štefan Füle claimed, that „the EU is by far Iceland's largest trading partner, with three quarters of exports going to EU countries. The EU has shared interests in sustainable fisheries and the ever increasing strategic importance of the Arctic region" [5].

Despite of the EU support for the Icelandic integration, Iceland became reluctant about the EU membership. The screening process took more than one year, what was not expected, given that Iceland had already implemented significant percentage of the EU law with the EEA membership, but between the 1st and 2nd Progress report on Iceland the EC did not find any compromise in disputed areas [4]. In 2013 another parliamentary elections in Iceland took place and winning parties of Independence Party and Progressive Party [2] decided to put the accession negotiations on hold. The integration process was interrupted and the negotiation chapters had the same status as from the last negotiation in December 2012. Later on, in March 2015, Althing officially withdrew the EU application and requested not to perceive Iceland as a candidate country [4].

This political development was caused also due to economic situation. With newly implemented economic recovery rules, Iceland´s economy was

becoming stabilized from 2010 again. According Peter Dohman, the IMF Mission Chief for Iceland, Iceland started to grow due to optimal usage of their natural resources, tradition in fishing industry, energetic policy and touristic boom. He also highlighted the restoration of banking system and restructuration of domestic debt. The central bank of Iceland maintained inflation rate close to target level and the depreciated Krona was used for export oriented industry [6]. As it is shown also on tables below, main economic indicators became relatively stable since 2010 – 2011. The unemployment rate was lowered from 7% in 2009 to 4% in 2015, the inflation rate from 13% in 2008 to 1% in 2015. Also the GDP started to grow again and investment supposed to rise on the average level until the 2019. The government debt has risen from 2007 due to government expenses on economy recovery, but in 2012 the Ministry of Finance marked a slowdown in government spending on the economic reconstruction. The Icelandic Krona appreciated in 2010 together with export oriented industry and restoring of investment opportunities.

This development was one of reasons of the EU membership application withdrawal. Althing argued that the EU did not help Iceland while dealing with the crisis and was not confident with the EU currency adoption refusal before the EU integration. With the relative stable economic situation the need of help to restore the Icelandic economy diminished. The fishery industry as well as the fear of endangering of national sovereignty became more important than the EU membership and its advantages, since main measures for the economic stabilization were already accepted. There are also other factors due to which the EU integration would not be beneficial for Iceland after the economy recovery:

- The accession negotiations became more difficult and prolonging after the EU enlargements in 2004 and 2007. After additional conditions in the screening phase, the integration process is delayed by a year.
- Financial crisis would delay accession negotiations between Iceland and Netherlands and the UK due to Icesave dispute.
- Lack of compromises among the parliament members in Iceland resulted in any progress in negotiation chapters such as agricultural policy, what potentially might have been handled due to similar weather conditions as in Scandinavia.
- Fishery policy and the mackerel dispute resulted in not opening the fisheries chapter [10].

Because of these issues, Iceland decided to not to be a member of the EU. Althing firstly wanted to make a final decision about the application withdrawal in referendum, but this referendum did not take place. One reason might be that political elite in Iceland is more reluctant about the EU entrance

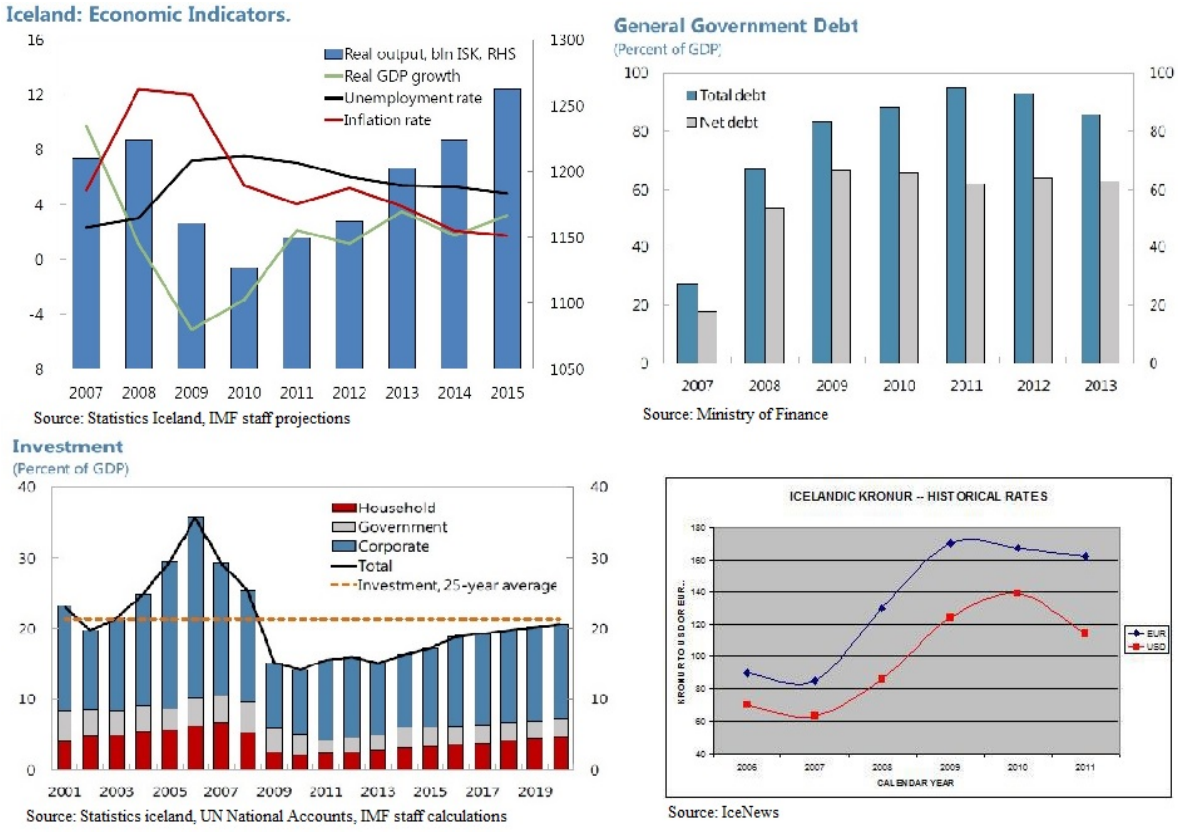

Fig. 1. Economic indicators of Iceland

Own processing based on data from source [8; 9]

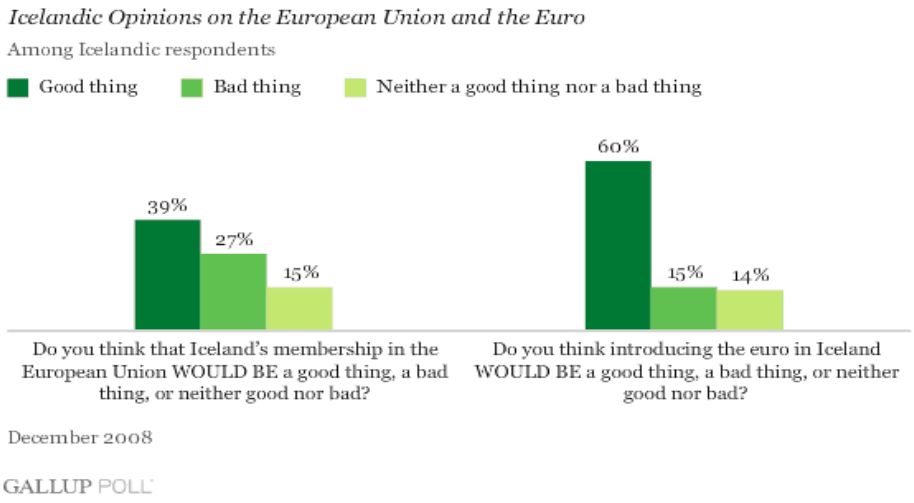

Fig. 2. Opinions on the EU and EURO in Iceland

Source: [1]

than the Icelanders and Althing might have been afraid of positive result of the referendum and eventual endangering of their fishery industry and national sovereignty. The second reason is that according to many surveys, Icelanders became also reluctant about the EU membership due to the fact that the EU did not help them directly during economy stabilization and potential EU entrance might limit them in traditional disputed areas – national sovereignty and fishery industry. According the survey from 2008, during the outbreak of financial crisis only 39% of Icelanders were in favor of the EU membership, but 60% of them perceived the EURO adoption would help while economy recovery.

In general, after the EU membership application withdrawal and relatively stabilized economic situation, Iceland does not want to be a member of the EU. In terms of international orientation, Althing decided to remain the EFTA and the EEA member, what is beneficial in terms of free trade with industrial products and products of fishery industry among the EFTA members. The EEA agreement allows export of Icelandic goods to the EU market almost freely. National security question stayed maintained through agreement on defense with the US. According to Baldur Thorhallsson „this relatively hasty membership application made it obvious that the economic crash had a profound (short-term) influence on the European policies of Iceland's political parties. However, no change had taken place in the stance of the traditional pillars of Iceland's EU skepticism that could account for this change" [14] – endangering of national sovereignty and fishery policy.

Conclusion. Iceland and Norway are the only Nordic states that are not the EU members. Until the outbreak of the global financial crisis, Althing was the most reluctant parliament in the EU, while Icelanders might have considered positively the EU membership. However, this situation and political direction changed after the outbreak of the financial crisis and due to the impact of economic situation. Iceland was hit by the global financial crisis significantly, what resulted in banking system collapse, bubble on real estate market and destabilization of welfare state.

This economic development caused the biggest slowdown in Icelandic economy and influenced state as well as citizens. With new parliamentary elections came also the change in political direction of the country towards the EU membership and stabilization reforms. To reach Icelandic main objective, adoption of the EU currency, Althing applied for the EU membership, but the negotiation process took longer as it was expected, since Iceland is an economically developed country and the EEA member. Althing and the EC did not come to agreement in fishery and agricultural policy and in financial sector as well. Due to this development, there was any possibility of the EURO adoption before the EU integration and economy was already stabilized, so Icelanders as well as Althing became reluctant towards the EU membership, also because of maintenance of national sovereignty. Thus, after 4 years and another parliamentary election, Althing decided to stop the negotiation process and in 2015 officially withdrew the EU membership application. The country's closest relation with the EU remains the EEA agreement and with the EFTA membership the current economic objectives are met without the loss of sovereignty.

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РОЗВИТОК МІЖНАРОДНОГО РИНКУ ФІНАНСОВО-ПЛАТІЖНИХ ПОСЛУГ В УМОВАХ ГЛОБАЛЬНОЇ НЕСТАБІЛЬНОСТІ

DEVELOPMENT OF THE INTERNATIONAL MARKET OF FINANCIAL AND PAYMENT SERVICES IN TERMS OF GLOBAL INSTABILITY

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У статті розглянуто закономірності розвитку міжнародного ринку фінансово-платіжних послуг у сучасних умовах глобальної нестабільності. Оцінено масштаби операцій на міжнародному фінансовому ринку порівняно зі світовим ВВП. Визначено чинники, що обумовлюють трансформацію системи ризиків міжнародного ринку фінансово-платіжних послуг в умовах глобалізації. Охарактеризовано ризики та виклики сучасного розвитку ринків фінансових послуг у розвинутих країнах і країнах, що розвиваються. Визначено необхідні умови і заходи, спрямовані на забезпечення ліквідності міжнародного ринку фінансово-платіжних послуг.

Ключові слова: *міжнародний ринок фінансово-платіжних послуг, глобальна нестабільність, фінансові операції та інструменти, фінансові активи, міжнародні платіжні системи.*

В статье рассмотрены закономерности развития международного рынка финансово-платежных услуг в современных условиях глобальной нестабильности. Оценены масштабы операций на международном финансовом рынке по сравнению с мировым ВВП. Определены факторы, определяющие трансформацию системы рисков международного рынка финансово-платежных услуг в условиях глобализации. Охарактеризованы риски и вызовы современного развития рынков финансовых услуг в развитых и развивающихся странах. Определены необходимые условия и меры, направленные на обеспечение ликвидности международного рынка финансово-платежных услуг.

Ключевые слова: *международный рынок финансово-платежных услуг, глобальная нестабильность, финансовые операции и инструменты, финансовые активы, международные платежные системы.*

The patterns of the international market of financial and payment services development in terms of global instability are considered in the article. The scale of the international financial market transactions is assessed compared to the global GDP. Factors that contribute to the risks system transformation of the international market of financial and payment services in the context of globalization are defined. Risks and challenges of the current development of financial services markets in developed and developing countries are characterized. Required conditions and measures aimed at providing liquidity to the international market of financial and payment services are determined.

Key words: *international market of financial and payment services, global instability, financial transactions and instruments, financial assets, international payment systems.*

Постановка проблеми. Розвиток міжнародного ринку фінансово-платіжних послуг сьогодні відбувається на тлі поглиблення процесів глобалізації, транснаціоналізації та інформатизації.