

# Economic and monetary chronicle

## November 2005

On November 18, the Government decided to grant old-age pensioners and recipients of disability benefits the same one-off payment that was negotiated when the social partners extended current wage settlements. This measure will cost the Treasury an estimated 700 m.kr.

On November 29, the supplementary budget for 2005 was passed by Parliament with a surplus of 91 b.kr., of which 64 b.kr. was accounted for by the privatisation of Iceland Telecom. Estimated regular revenues were 10.7% higher than the budget figures, and regular expenditures 3.5% higher.

On November 29, Fitch Ratings upgraded the individual rating of Landsbanki Íslands to B/C from C, and affirmed its other ratings at long-term A, short-term F1 and support 2. The rating outlook is stable.

## December 2005

On December 2, the Governors of the Central Bank of Iceland announced that the Bank would raise its policy interest rate (i.e. its repo rate in transactions with credit institutions) by 0.25 percentage points to 10.5%. Other Central Bank interest rates were also raised by 0.25 percentage points. Interest rates on one-week certificates of deposit and the repo rate were raised as of December 6 and other rates as of December 11.

On December 2, the formal interest rate decision dates for 2006 were announced in *Monetary Bulletin*, under a new arrangement described in a Central Bank press release from November 11. As of 2006, *Monetary Bulletin* will be published three times a year instead of quarterly. Besides the publication dates for *Monetary Bulletin*, interest rate decisions will be announced on three other fixed dates, together with detailed explanations for them. Thus there will be six interest rate decision dates in 2006: the publication dates of *Monetary Bulletin* on March 30, July 6 and November 2, and announcements with press releases on January 26, May 18 and September 14.

On December 2, the Central Bank announced in *Monetary Bulletin* its plans to make weekly purchases of 5 million US dollars in 2006 to meet Treasury requirements and strengthen the foreign reserves. The Bank purchased 2.5 m. US dollars five times a week until the end of 2005 and reduced this to 2.5 m. US dollars twice a week in 2006. Under a new arrangement until the end of 2006, the Central Bank will purchase currency before the interbank market opens on Monday and Wednesday mornings.

On December 7, the budget for 2006 was passed by Parliament with a 20 b.kr. surplus. Regular revenues of the Treasury are expected to decrease by 5.1% in real terms and regular real expenditures by 3.8%.

On December 21, Landsbanki Íslands announced that all conditions for its acquisition of Merrion Capital Group Limited had been met and the transaction was complete. Landsbanki will acquire an initial 50% shareholding in Merrion and the remaining 50% over the next three years. Merrion was initially valued at 4 b.kr. but the subsequent acquisition price will be based on future profits generated by it.

#### **January 2006**

On January 1, the second phase of the income tax cuts approved by Parliament in autumn 2004 went into effect. The personal income tax rate was lowered from 24.75% to 23.75%. The personal allowance was raised by 2.5% and the average municipal income tax rate was lowered marginally from 12.98% to 12.97%. Thus the total personal income tax PAYE rate will be 36.72% in 2006, compared with 37.73% in 2005.

On January 1, net wealth tax on private persons and legal entities was also abolished, i.e. it will not be levied on assets held at the end of 2005. The surcharge on highest incomes was also abolished at the end of the year; it will be levied this summer in the final settlement of taxes on income earned in 2005, but will not be levied on income in 2006.

On January 20, Fitch Ratings assigned Straumur-Burðarás Fjárfestingabanki investment bank ratings of long-term BBB-, short-term F3, individual C/D and support 3. The rating outlook was stable.

On January 26, the Governors of the Central Bank of Iceland announced that the Bank would raise its policy interest rate (i.e. its repo rate in transactions with credit institutions) by 0.25 percentage points to 10.75%. Other Central Bank interest rates were also raised by 0.25 percentage points. Interest rates on one-week certificates of deposit and the repo rate were raised as of January 31 and other rates as of February 1.

#### **February 2006**

On February 21, Fitch Ratings affirmed the Republic of Iceland's issuer default ratings for long-term foreign and local currency at AA- and AAA respectively. The country ceiling was also affirmed at AA and the short-term foreign currency rating at F1+. The outlook was revised from stable to negative.

On February 24, the Central Bank of Iceland's revised internal Rules on the preparation, rationale and presentation of monetary policy decisions were formally ratified. The Rules were set with reference to the provisions of paragraph 3, Article 24 of Act No. 36/2001 on the Central Bank of Iceland. They have now been revised in light of experience and also the fact that as of 2006, the Board of Governors of the Central Bank of Iceland announces its interest rate decisions on fixed, preannounced days.

**March 2006**

On March 16, Standard & Poor's Ratings Services affirmed its AA-long-term foreign currency and AA+ long-term local currency sovereign credit ratings on the Republic of Iceland. At the same time, the A-1+ short-term foreign and local currency ratings on Iceland were affirmed. The outlook remains stable.

