

# Economic and monetary chronicle

## November 2006

On November 1, an agreement was signed confirming the Treasury's acquisition of the shares held in Landsvirkjun (the national power company) by the City of Reykjavík and Town of Akureyri, conditional upon the approval of their councils.

On November 9, Fitch Ratings affirmed Iceland's foreign and local currency issuer default ratings of AA-/AAA. The outlook remained negative.

On November 24, Parliament approved a government bill raising mortgage interest relief, in keeping with a commitment made during the public sector wage review in June 2006.

On November 27, Kaupthing Bank issued new shares of nominal value 660 m.kr. in an offering to international institutional investors. On December 1, Kaupthing Bank made a further issue, after exercising over-allotment option, of nominal value 99 m.kr. These new issues raised the total nominal value of the bank's listed shares to 7,404,530,530 kr.

In November, the Republic of Iceland completed a five-year €1 billion Eurobond issue in international bond markets. The entire proceeds from the issue were used to strengthen the foreign reserves of the Central Bank of Iceland.

## December 2006

On December 1, market makers in the FX market began trading in euros instead of US dollars. Their minimum indicative bid is set at € 3 million. Market makers continue to quote prices in US dollars.

On December 1, OMX AB shares were listed on Iceland Stock Exchange (ICEX) Main List. The listing of OMX was the first secondary listing on ICEX. OMX shares are primary-listed on Stockholm Stock Exchange.

On December 4, the state budget for 2007 was passed by Parliament. The surplus excluding irregular items is estimated at 9 b.kr., with total revenues amounting to 376 b.kr. and total expenditures 367 b.kr.

On December 4, the supplementary budget for 2006 was passed by Parliament. Additional revenues amounted to 44 b.kr. and additional expenditures to 20 b.kr., and additional borrowing of 87 b.kr. was authorised in order to strengthen the Central Bank of Iceland's foreign reserves.

On December 8, Parliament agreed to convert Municipality Credit Iceland into a statutory limited liability company.

On December 8, the Government agreed to raise unemployment benefit by 2.9% on January 1, 2007, instead of the previously announced increase of 2.25%.

On December 8, the Financial Supervisory Authority (FME) approved the merger of two savings banks, Sparisjóður vélstjóra and Sparisjóður Hafnarfjarðar.

On December 9, Parliament passed a government-sponsored bill raising the minimum pension fund contribution from 10% of wages to 12% and authorising funds no longer backed by employer guarantees to amend their articles of association accordingly.

On December 9, Parliament amended the Income Tax Act to lower the personal income tax rate by 1 percentage point at the beginning of 2007, instead of the previously announced 2 percentage points, while increasing the personal tax-free threshold by 14%. The personal tax credit was also indexed to the CPI and child allowance extended to the age of 18.

On December 9, Parliament agreed to extend the temporary cut in fuel tax and mileage tax on heavy-duty vehicles from 2004 until the end of 2007.

On December 9, Parliament agreed to cut VAT and excise on food, catering, compact discs and other categories from 14% or 24.5% to 7%, and to abolish commodity taxes on domestic and imported food excluding confectionery.

On December 9, Parliament agreed to cut the payroll tax by 0.45 percentage points, and 0.25% of the payroll tax base will be paid annually to pension funds in proportion to their disability benefit commitments, phased in at 0.15% in 2007 and 0.20% in 2008.

On December 19, Straumur-Burðarás investment bank announced its decision to prepare its accounts and annual financial statements in euros effective from January 1, 2007. At its annual meeting in March 2007, shareholders in Straumur-Burðarás approved an amendment to the company's articles authorising the board to determine the issue of company share capital in euros instead of Icelandic krónur.

On December 21, the Governors of the Central Bank of Iceland announced that the Bank would raise its policy interest rate (i.e. its collateral loan rate in transactions with credit institutions) by 0.25 percentage points to 14.25%. Other Central Bank interest rates were also raised by 0.25 percentage points. Interest rates on one-week certificates of deposit and the collateral loan rate were raised as of December 27 and other rates as of December 21.

On December 22, Standard & Poor's Ratings Services lowered its foreign currency sovereign credit ratings on the Republic of Iceland to A+ long-term and A-1 short-term, from AA- and A-1+, respectively. At the same time, the long-term local currency rating on Iceland was lowered to AA from AA+, and the short-term local currency rating was affirmed at A-1+. The outlook was changed from negative to stable.

### February 2007

On February 6, Moody's Investors Service downgraded the financial strength rating of Glitnir from C+ to C, and affirmed the bank's A1/P-1 credit rating.

On February 20, the Central Bank of Iceland made króna-denominated bonds issued outside Iceland eligible as collateral for its loan facilities. Conditions include a minimum issue of 20 b.kr.

On February 23, Moody's Investor Service upgraded the credit ratings of Kaupthing Bank, Glitnir and Landsbanki due to changes in its joint default analysis (JDA) methodology. Long-term credit ratings were upgraded to Aaa, from A1 for Glitnir and Kaupthing Bank and from A2 for Landsbanki. Ratings for short-term obligations in local and foreign currencies and for financial strength were affirmed at P-1 and C, respectively. Shortly after the upgrade, Moody's announced that it would review its methodology and issue new ratings in April 2007.

### **March 2007**

On March 1, the Housing Financing Fund raised its loan-to-value ratio from 80% to 90% and its maximum mortgage amount from 17 m.kr. to 18 m.kr.

On March 2, Landsbanki announced the sale of all its shares in Landsafl real estate investment company. The sale positively impacted Landsbanki's equity by approximately 3.5 b.kr.

On March 15, 2007 Fitch Ratings downgraded Iceland's foreign and local currency issuer default ratings to A+ and AA+ from AA- and AAA respectively. The outlook on both ratings was stable. The short-term foreign currency rating was also downgraded to F1 from F1+ and the country ceiling was lowered to AA- from AA.

On March 16, Parliament amended the Act on the Affairs of the Elderly whereby taxpayers paying only personal capital income tax now pay the same rate of contribution to the Senior Citizens' Building Fund as payers of personal income tax on wages.

On March 17, Parliament passed a government bill exempting companies from income tax on their gains on trading in equities that they have held for more than one year.

On March 16, Glitnir announced that it had completed the acquisition of 68.1% of shares in FIM Group Corporation of Finland. Glitnir planned to launch a tender offer for the remaining shares in FIM Group in early April. In all, Glitnir will pay 30 b.kr. to acquire FIM Group.

