

# Economic and monetary chronicle 1999

## January

In accordance with legislation adopted by the Icelandic Parliament in June 1998, a new supervisory agency, the Financial Supervisory Authority, was formally established and commenced operations at the beginning of 1999. The new authority takes over the supervisory functions formerly performed by the Central Bank of Iceland and the Insurance Supervisory Authority.

The Housing Financing Fund sold housing bonds for 2.4 billion kr. from two classes, BN20-0101 and BN38-0101.

The US credit rating firm Moody's gave the Icelandic Investment Bank a credit rating of A3/P2 and D for financial strength.

On January 15, the Central Bank presented an inflation forecast projecting a 1.9 percent average increase in consumer prices between 1998 and 1998 and an increase of 2.2 percent in the course of 1999. Prices were projected to rise by 0.6 percent during the first quarter.

On January 28, the IMF published the concluding statement of the Article IV mission to Iceland. The IMF forecast a GDP growth of 5.6% in 1999 and 4.4% in 2000, and an inflation rate of 3.5% and 3.2% in 1999 and 2000 respectively

## February

On February 23, the Central Bank raised its interest rates by 0.4 percentage points and introduced a minimum liquidity requirement on credit institutions. The minimum liquidity requirement is primarily a prudential measure. Nevertheless, in the early months in which it is in effect it could restrain the capacity of credit institutions to grant new credit. It will also have the effect of reducing the reliance of credit institutions on short-term foreign credit. The regulations became effective on March 21.

## April

The Housing Financing Fund sold housing bonds for 2.2 billion kr. from two classes, BN20-0101 and BN38-0101.

On April 21, the Central Bank presented an inflation forecast of a 2.4 percent average increase in consumer prices between 1998 and 1999 and an increase of 2.8 percent in the course of 1999. Prices were projected to rise by 1.0 percent during the second quarter, or 4.2% on an annual basis.

## June

On June 21, the Central Bank raised its interest rates by 0.5 percentage points.

On June 25, the currency basket of the exchange rate index was changed following an annual review of the basket, taking into account changes in the composition of external trade in 1998.

The US credit rating firm Moody's gave the Agricultural Bank Ltd a credit rating of A3/P2 and D for financial strength.

## July

On July 22, the Central Bank presented an inflation forecast of a 3.0 percent average increase in consumer prices between 1998 and 1998 and an increase of 4.0 percent in the course of 1999. Prices were projected to rise by 1.0 percent during the third quarter, or 5.2% on an annual basis.

## September

The Housing Financing Fund sold housing bonds for 2.0 billion kr. from two classes, BN20-0101 and BN38-0101.

On September 15, The treasury announced, at the request of the Minister of Finance, its intention of redeeming government securities and reducing the outstanding government benchmark securities.

### **October**

On October 25, the Central Bank presented an inflation forecast of a 3.3 percent average increase in consumer prices between 1998 and 1999 and an increase of 4.6 percent in the course of 1999. Prices were projected to rise by 1.0 percent during the fourth quarter, or 4.1% on an annual basis.

The Treasury sold its 51% holding in FBA (The Icelandic Investment Bank) for 9.7 billion krónur.

On October 25, the Central Bank began publishing statistics on the Icelandic economy on its website [www.sedlabanki.is](http://www.sedlabanki.is). Statistics mainly relate to areas directly under the Bank's field of activities and are upgraded weekly. Chronology of financial markets February 1999 - February 2000.

### **November**

The first issue of the Central Bank's Monetary Bulletin was published on November 24. This quarterly publication contains coverage of economic and monetary issues and financial market developments, in addition to articles and statistics.

### **December**

The treasury sold 15% of its holdings in Landsbanki and Búnadarbanki. Shares in the banks were sold both by subscription and bid. The sales value was just under 6 billion krónur.

The US credit rating firms Moody's Investor Service and Standard & Poor's confirmed their credit ratings for the Republic of Iceland. Ratings are Aa3 and A+ for long-term liabilities and P-1/A-1+ for short-term liabilities denominated in foreign currency. For liabilities in Icelandic krónur the Republic received the top rating, Aaa from Moody's and AA+ from Standard & Poor's.

On December 8 the Althingi (parliament) passed Act no. 90/1999 on the Security of Payment Orders in Payment Systems. The Act covers the payment systems operated in Iceland.

On December 21 parliament passed Act no. 96/1999 amending the Central Bank Act no. 36/1986, with later amendments. The amendment extended the definition of liquidity specified in Art. 8 of the Act. New rules on liquidity of credit institutions which have required deposits went into effect on December 31. Based on different principles from earlier rules, these involve a comprehensive assessment of their liquid assets and liquid liabilities (see box on p. 18).