

Economic and monetary chronicle 2000

January

New rules on indexation of savings, credit, etc. went into effect on January 1. The permissible difference between credit institutions' indexed assets and liabilities was extended from 20% to 30% of equity. Scheduled provisions in the Central Bank's rules from June 1995, changing authorization for indexation of savings and lending, were not implemented. The minimum term for indexation to apply will remain 3 years for deposits and 5 years for loans.

On January 1, an amendment to the Central Bank Act no. 36/1986 entered into effect, transferring responsibility for the Bank from the Minister of Commerce to the Prime Minister.

On January 1, Greidslumidlun hf. (Visa Iceland) was granted a permit to operate as a credit institution.

On January 12, the Central Bank raised its interest rates by 0.8 percentage points.

On January 24, the Central Bank presented an inflation forecast of a 5% average increase in consumer prices between 1999 and 2000 and an increase of 3.8% in the course of 2000. Prices were projected to rise by 0.9% during the first quarter, or 3.7% on an annual basis.

February

New rules on the interbank market for krónur went into effect on February 1. The main change was that market participants undertake to make offers for specified sums with a maturity of 9 and 12 months. The Central Bank will calculate and publish REIBOR and REIBID 9- and 12-month rates.

New rules on Central Bank transactions with credit institutions which have required deposits went into effect on February 1. The main changes involved the formal incorporation of provisions concerning correction of transaction errors, and switching of the Central Bank's deadline for announcing forthcoming weekly repo auctions from Friday after closing to the Monday morning. A new bond category was announced, SLST023/2, which may be used in transactions with the Central Bank.

On February 3 the international credit rating firm Fitch IBCA gave the Republic of Iceland a credit rating of AA- for long-term liabilities in foreign currencies. The Republic was given the rating F1+ for short-term foreign liabilities and AAA for its domestic liabilities, which is the highest rating given by the firm.

On February 11, the Central Bank raised its interest rates by 0.3 percentage points and announced that it had extended the exchange rate bands from $\pm 6\%$ to $\pm 9\%$.

March

On March 21 new rules took effect on interbank transactions in domestic currency. The main change involved setting a maximum interest rate margin between deposits and lending in participants' bids for one month or more. The maximum margin is 25 points. No maximum margin is stipulated for transactions of a shorter term.

On March 30 the Minister of Commerce granted FBA a licence to operate as a commercial bank in accordance with Art. 4 of the Commercial Banks and Savings Banks Act no. 113/1996.

April

On April 10 Íslandsbanki and FBA signed a memorandum of intent to propose to their respective shareholders' meetings that the two companies should be merged to create a new company under the name Íslandsbanki-FBA hf.

May

The Central Bank presented an inflation forecast of a 5.5% average increase in consumer prices between 1999 and 2000 and an increase of 5.0% in the course of 2000. Prices were projected to rise by 1.4% during the first quarter, or 5.7% on an annual basis.

In the middle of May two of the declared market makers for treasury instruments on the Iceland Stock Exchange announced, with one month's notice, that they intended to cease market making.

June

On June 2, Íslandsbanki-FBA formally commenced operations.

The US credit rating firm Moody's Investors Service gave Íslandsbanki-FBA a credit rating of A2 for long-term obligations, Prime-1 for short-term obligations and C for financial strength.

On June 7, following a tender, the Debt Management Agency signed an agreement with Kaupthing, Búnadarbanki Íslands, Íslandsbanki-FBA and Icebank. From the date of signature these banks are authorized to title themselves approved market makers for treasury bonds. The agreement defines the market makers' obligations regarding presentation of bids on ISE and the maximum spread between buying and selling yields. The Debt Management Agency will pay the market makers a turnover commission for market making. The agreement stipulates four benchmark treasury bond classes, three of them indexed and one unindexed. At the same time, the Debt Management Agency undertook to improve its dissemination of information.

On June 19, the Central Bank raised its interest rates by 0.5 percentage points.

The Housing Financing Fund made an agreement with Landsbanki Íslands and Búnadarbanki Íslands on market making for housing bonds and housing mortgage bonds. From the date of signature these banks are authorized to title themselves approved market makers for housing bonds and housing fund bonds. The Housing Financing Fund selected its market makers in the same way as the Debt Management Agency and its agreement is comparable in all respects. At the same time, the Housing Financing Fund announced that henceforth it would seek to notify the market on a regular basis about information which may have an impact on bond price formation.

On June 30, the Minister of Commerce approved the merger between Samvinnfund and Fjárvangur Securities into Frjalsi Investment bank, which is a credit institution in accordance with Act no. 123/1996.

July

On July 6, Icebank notified the Central Bank of its decision, effective one month later, to withdraw from participation in the interbank foreign exchange market.

On July 13, the interbank foreign exchange market was closed between 10:00 and 12:00 hrs, on the decision of market makers. The decision was made because of heavy trading in the foreign exchange market and a sharp weakening of the króna that morning. The króna fell somewhat in June and July in several speculative attacks.

On July 18 trading began on Nasdaq in DeCode Genetics' shares.

On July 18 an announcement was made of Landsbankis' purchase of a majority of shares in British investment bank The Heritable and General Investment Bank Ltd. (HGI).

On July 20, the currency basket was revised on the basis of Iceland's foreign trade in goods and services in 1999. The table below shows the new basket and the change from the former basket.

New currency basket 2000 (%)

Based on foreign trade in 1999

<i>Country</i>	<i>Currency</i>	<i>Exports</i>	<i>Imports</i>	<i>Average</i>	<i>Change from prev. basket</i>
USA	USD	25.57	24.95	25.26	0.57
Britain	GBP	15.14	13.58	14.36	1.36
Canada	CAD	1.83	1.02	1.42	0.09
Denmark	DKK	8.41	9.37	8.89	0.52
Norway	NOK	6.85	8.37	7.61	0.26

<i>Country</i>	<i>Currency</i>	<i>Exports</i>	<i>Imports</i>	<i>Average</i>	<i>Change from prev. basket</i>
Sweden	SEK	2.58	5.57	4.07	0.35
Switzerland	CHF	3.16	1.06	2.11	-0.39
Euro zone	EUR	32.21	30.64	31.43	-2.92
Japan	JPY	4.25	5.44	4.85	0.16
North America		27.40	25.97	26.68	0.66
Europe		68.35	68.59	68.47	-0.82
European Union		58.34	59.16	58.75	-0.69
Japan		4.25	5.44	4.85	0.16
Total		100.00	100.00	100.00	0.00

August

On August 8, Icebank withdrew from participation as a market maker in the interbank foreign exchange market.

September

On September 4, the Danish Internet bank Basisbank began operations. Íslandsbanki-FBA owns a onequarter share in Basisbank.

On September 11, the number of market makers for housing bonds and housing fund bonds increased from two to five when Íslandsbanki-FBA, Kaupthing Investment Bank and Icebank began participation. Prior market makers were Búnadarbanki and Landsbanki.

On September 29, Búnadarbanki announced that it has applied to the banking authorities in Luxembourg for a permit to operate a bank there.

October

On October 2, the draft treasury budget for 2001 was presented to parliament, assuming a surplus of 30 billion kr.

On October 13, the government of Iceland instructed the boards of directors of Búnadarbanki and Landsbanki to initiate discussions on merging these banks, and announced that a prior ruling would be sought from the Competition Council.

On October 20, revised rules on the interbank foreign exchange market went into effect. Two main changes were made from the earlier rules. A provision authorising market makers to agree on temporary suspension of trading was withdrawn, and the minimum binding amount for trading was raised from USD 1 million to USD 1½ million.

On October 26, Kaupthing hf. was listed on Iceland Stock Exchange.

On October 27, Íslandsbanki-FBA launched a 250 million floating rate note issue, the largest eurobond issue ever made by an Icelandic financial institution.

November

On November 1, the Central Bank raised its interest rates by 0.8 percentage points. After the rise, prepaid interest on Central Bank intraday lending is 12.4% and interest on repurchase agreements with deposit institutions is 11.4%.

On November 7, Bonus Dollar Stores, a subsidiary of Baugur hf., announced it had signed an agreement with Institutional Equity of Dallas which would act as lead manager for the listing of Bonus Dollar Stores on Nasdaq Small Caps in connection with its IPO. The company aims for listing in February 2001.

On November 10, the Minister of Finance announced that, instead of amortising the 15 billion kr. of its foreign debt which matures in 2001, the treasury would roll over the debt with new foreign borrowing.

On November 14, Íslandsbanki-FBA, Landsbanki and Icebank signed an agreement to act as primary dealers in T-bills in the secondary market. The agreement aims to secure T-bill issues and boost secondary market price formation. Primary dealer auctions will take place at intervals of two months.

December

On December 4, Íslandsbanki-FBA announced plans to purchase a 56.2% shareholding in Rietumu Banka of Latvia. The Íslandsbanki-FBA board approved the terms of the acquisition subject to due diligence and approval by the Central Bank of Latvia.

On December 18, the Competition Board ruled that the proposed merger of Búnadarbanki Íslands and Landsbanki Íslands would contravene the Competition Act.

On December 22, the Central Bank of Latvia approved Rietumu Banka's purchase of a 100% holding in another Latvian Bank, Saules Banka. The merger has created one of the largest corporate and private banking entities in the Baltic. Trading on Iceland Stock Exchange reached a record volume on 29 December at 12.5 b.kr.

On December 31, Kaupthing and its clients signed a declaration of intent with Olíufélagid oil company, Samvinnulífeyrissjóður pension fund, Traustfang investment company and Vátryggingarfélag Íslands insurance company, together with Isoport A.S., whereby Kaupthing undertook to purchase at least 2/3 of total share capital in Frjálsi Investment Bank from the above parties. The declaration of intention was signed subject to approval by the sellers' boards and due diligence.