

Economic and monetary chronicle 2002

January

On January 9 it was announced that Kaupthing hf. had signed a letter of intent to acquire the Swedish securities firm Aragon Holding AB. The transaction has expected to be closed at the end of January, on completion of the due diligence process.

On January 11 a commercial banking licence was issued to Kaupthing. A Kaupthing shareholders' meeting on December 28, 2001 passed a resolution changing the name of the company as a prerequisite for the licence. It was also agreed to add the word "bank" to the title of the company. Henceforth, its name is Kaupthing bank hf. and it will operate in conformity with current legislation on commercial banks and savings banks.

On January 20, changes were announced in the service hours of the RTGS system operated by the Central Bank. The RTGS system will operate from 8.45 to 18.00 hrs. and the minimum payment order amount will be 25 m.kr.

The supplementary budget for 2001, passed by parliament in December, included authorisation for the treasury to make a contribution to the Central Bank's equity capital amounting to 9 b.kr. during 2001. The contribution was paid at the end of the year. The budget for 2002, also passed in December, included authorisation to make a further 4.5 b.kr. equity capital contribution to the Bank in 2002.

February

On February 11, the Central Bank of Iceland signed an agreement for a credit facility with Union Bank of Norway to the amount 200 million USD, which corresponded to just under 21 b.kr. at that time. Effective for five years, the agreement with Union Bank of Norway is on favourable terms for the Central Bank and is additional to similar credit facility agreements arranged with several other financial institutions.

On February 15, Fitch announced its credit rating of AA- for the Republic of Iceland for obligations in foreign currency. It also affirmed the local currency ratings of AAA for long-term debt and F1+ for shortterm debt. The outlook on the long-term ratings was changed to negative from stable.

March

On March 5, the Central Bank announced plans to change the rules as to which securities qualify as collateral for repo transactions (See box on p. 31)

On March 8, the Board of Governors of the Central Bank set formal rules for the interbank market for currency swaps. The rules went into force on March 15, 2002.

On March 13, the government announced its decision to halt the process which had been under way for some time aimed at selling a substantial share in Iceland Telecom to an anchor investor. Sale of the state's shareholding in the company will be resumed as soon as financial market conditions allow.

On March 26, the Central Bank announced that it had lowered the interest rate on its repo agreements with credit institutions, and on credit institutions' deposits with the Bank, by 50 bp., effective from April 1.

April

On April 1, the treasury bond RS02-0401, to the total amount 10 b.kr., matured. Liquidity increased in the wake of the maturity and interbank market interest rates decreased significantly.

On April 1, the agreement on payment of commission to market makers in the forex market was extended for three months.

On April 16, Moody's Investors Service announced that the narrowing of macro imbalances had helped to sustain the stable outlook on Iceland's Aa3 foreign currency ceilings and Aaa rating for issuing government bonds in local

currency. The main reasons stated were the advanced economy, high and level national income per capita and stable political situation. The structural reforms of the past decade have diversified the economy and led to robust growth, price stability and a significant reduction in public sector debt, Moody's said.

On April 30, the Central Bank announced that it had lowered its policy rate and other interest rates by 30 bp, effective from May 1.

May

On May 8, it was announced that the Minister of Finance had assigned the Debt Management Agency with the issue of new category of non-indexed treasury bonds. With a lifetime of 11 years and maturing in May 2013, this will be the longest non-indexed category in the Icelandic financial market so far.

On May 21, the Central Bank lowered the interest rate on its repo agreements with credit institutions and on its O/N rate, both by 50 bp. Interest rates on credit institutions' deposits with the Bank were lowered by 20 bp at the same time.

On May 28, the government of Iceland announced a public offering of shares in Landsbanki Íslands hf. It was planned to sell 20% of total capital stock in the bank in this phase, reducing the state's holding from just over 68% to just over 48%. The sale took place in June and the plans were fully realised.

June

On June 18, the Central Bank lowered the interest rate on its repo agreements with credit institutions by 30 bp to 8.5%, effective from June 25. Its other interest rates were also lowered by 30 bp, effective from the same time, except for those on credit institutions' deposits with the Bank which remained unchanged.

New currency basket 2002 (%)

Based on foreign trade in 2001

<i>Region</i>	<i>Currency</i>	<i>Exports</i>	<i>Imports</i>	<i>Average</i>	<i>Change from prev. basket</i>
USA	USD	22.76	26.89	24.83	-2.16
Britain	GBP	14.60	10.97	12.78	-1.99
Canada	CAD	1.50	0.96	1.23	-0.13
Denmark	DKK	7.78	8.54	8.16	-0.52
Norway	NOK	6.75	6.82	6.78	0.70
Sweden	SEK	1.80	5.16	3.48	-0.96
Switzerland	CHF	2.74	1.28	2.01	0.36
Euro zone	EUR	38.73	35.43	37.08	5.42
Japan	JPY	3.34	3.95	3.65	-0.72
North America		24.26	27.86	26.06	-2.29
Europe		72.40	68.19	70.30	3.02
European Union		62.91	60.10	61.50	1.95
Japan		3.34	3.95	3.65	-0.73
Total		100.00	100.00	100.00	0.00

On July 10, the Executive Committee on Privatisation, on behalf of the Minister of Commerce, requested notification from parties interested in acquiring a shareholding of at least 25% in Landsbanki and Búnadarbanki. A domestic or foreign investor was sought with the aim of strengthening the bank and boosting competition in the Icelandic financial market. It was stated that a 25% share would be sold in only one of the two banks if an acceptable price were fetched and talks led to a sale. The aim was then to sell the shareholding in the other bank later this year.

On July 19, it was announced that the Housing Financing Fund and Debt Management Agency had signed an agreement on the implementation of the Fund's agreement with market makers for housing bonds and housing authority bonds in the secondary market for the period July 1, 2002 to June 30, 2003. The Agency began formal supervision of this arrangement on Monday, 22 July.

July

On July 5, a new currency basket was announced following the annual revision on the basis of Iceland's foreign trade in goods and services in the preceding year. The new basket and changes from the previous year are shown in the table below.

August

On August 30, the Central Bank announced a 30 bp cut in its interest rates, effective from September 1. After the cut, the Central Bank policy rate was 7.6%.

September

On September 10, the Ministerial Committee on Privatisation announced its decision to begin talks with Samson eignarhaldsfélag ehf. holding company on the acquisition of a substantial shareholding in Landsbanki Íslands hf. At the same time it was decided to launch preparations for the sale of a substantial shareholding in Búnaðarbanki Íslands hf.

On September 18, the Central Bank announced a 50 bp cut in its interest rates, effective from September 21. After the cut, the Central Bank policy rate is 7.1%.

On September 30, SPRON acquired Kaupthing Bank hf.'s entire holding in Frjálsi fjárfestingarbankinn hf. investment bank.

October

On October 15, the Central Bank announced a 30 bp cut in its interest rates, effective from October 21. After the cut, the Central Bank policy rate was 6.8%.

On October 21, it was announced that the Executive Committee on Privatisation and Samson eignarhaldsfélag ehf. had reached an agreement on the latter's acquisition of a 45.8% holding in Landsbanki Íslands hf. After this transaction, the state's holding in Landsbanki will be 2.5%. Following the agreement it was decided to continue the sales process for the state's holding in Búnaðarbanki. Two groups of investors were selected for further talks.

On October 22, Moody's Investors Service upgraded its foreign currency country ceiling for Iceland for bonds and bank deposits to its highest rating, Aaa, up from Aa3.

November

On November 5, the Ministerial Committee on Privatisation announced its decision to begin talks with an investor group comprising Eignarhaldsfélagid Andvaka holding company, Eignarhaldsfélagid Samvinnutryggingar holding company, Vátryggingafélag Íslands hf. insurance company, Kaupfélag Skagfirdinga svf. cooperative, Ker hf. holding company and Samvinnulífeyrissjóðurinn pension fund, together with one or more foreign financial institutions, on their acquisition of a substantial shareholding in Búnadarbanki Íslands hf. This decision was based on preconditions set by the Executive Committee on Privatisation and an evaluation by the British bank HSBC of documents submitted by the two parties with which the committee had held talks.

On November 6 the Central Bank announced a 50 bp cut in its interest rates, effective from November 11. After the cut, the Central Bank policy rate was 6.3%.

On November 12, Statistics Iceland began publication of two core indices to measure the underlying inflation trend. Under the joint declaration by the Government of Iceland and the Central Bank of Iceland from March 27, 2001 on an inflation target and a change in the exchange rate policy, Statistics Iceland was asked to calculate one or more indices which may be used to assess the underlying rate of inflation as further agreed by the Central Bank and Statistics Iceland. Core Indices 1 and 2 are the outcome of that work. Both use the same base as the Consumer Price Index, but the former excludes prices of vegetables, fruit, agricultural products and petrol, and the latter prices of public services as well.

On November 18, the US credit rating agency Standard & Poor's changed its outlook for the Republic of Iceland from negative to steady. It also affirmed both its ratings for the Republic of Iceland, at AA+/A-1+ for local currency and A+/A-1+ for foreign currency. The main reasons for the upgraded outlook were Iceland's improved external position, the successful privatisation of state-owned banks and ongoing good bank profitability at the end of a strong credit expansion phase.

December

On December 10 the Swedish financial supervision authority announced that it had approved Kaupthing Bank's takeover of JP Nordiska bank of Stockholm. Kaupthing Bank's takeover of JP Nordiska was thereby completed.

On December 12 the Central Bank announced a 50 bp cut in its interest rates, effective from December 17. After the cut, the Central Bank policy rate was 5.8%.