

Economic and monetary chronicle

March 2004

On March 7, the Federation of Special and General Workers (SGS) and its southwest Iceland branch agreed on wage settlements with the Confederation of Employers (SA). The settlements will be in effect until December 31, 2007. The total cost to employers over the term of the settlement is estimated at 15.1%, or 3.6% on average per year. New pay scales will take effect incorporating various bonus payments and supplements into basic pay rates in 2004 and 2006. In connection with the pay scale changes, more flexible working hours were agreed upon in specific industries or workplaces. The employers' mandatory pension fund contribution will also increase from 6% to 8% over the term of the agreement.

Underlying assumptions of the wage settlements are that prices develop in line with the Central Bank's inflation target and that other labour market settlements entail broadly the same wage increases. A committee appointed by the Federation of Labour (ASÍ) and SA will meet twice (in 2005 and 2006) to review whether the assumptions have held. In connection with the settlements, the government made a commitment to back a 0.45% reduction in national insurance contributions in 2007, to lower the cost impact for employers. Unemployment benefit will go up by 3.6% more than the lowest basic wages over the period and the government will ensure that contributions will continue to be made into a fund for job training until the settlements expire. This measure will cost the Treasury 2½ b.kr.

On March 12, Íslandsbanki hf. reduced its nominal registered share capital by 500 m.kr., to 10 b.kr.

On March 17, the National Debt Management Agency issued a new series of non-indexed Treasury notes, RIKB 10 0317, with a maturity date of March 17, 2010. The notes bear interest which is paid annually at the end of each interest period. The annual interest rate is 7.00%. On the final due date,

March 17, 2010, the last payment of interest due will be made, together with payment of the principal amount of the notes.

On March 17, Íslandsbanki hf. announced that it had sold a 75% holding in the UK private bank R. Raphael & Sons plc. After the sale, the bank owns a 25% share in Raphael & Sons, which thereby ceases to be reported as a subsidiary in its accounts. The buyer was Lenlyn Holdings plc. Íslandsbanki hf. announced that the sale price of R. Raphael & Sons plc. was consistent with the book value in its accounts and would therefore have a negligible impact on its operations and balance sheet.

On March 12, Landsbanki Íslands hf. increased its nominal share capital by 600 m.kr., to 8.1 b.kr. Share price in the transaction was 7.6 króna per share, raising the bank's total equity by 4,560 m.kr. Based on figures for the end of 2003 and including the share capital increase, Landsbanki's total equity is nearly 27 b.kr. The new share capital boosted its CAD equity ratio to above 11%, of which more than 8% was Tier 1.

April 2004

On April 5, it was announced that the Ministry of Finance had requested the National Debt Management Agency to increase the volume of government bonds in the series RIKS 15 1001 by a nominal value of 3,434,428,436 kr. The additional issue was made in connection with pension fund obligations that the Treasury and City of Reykjavík have operated jointly.

On April 5, the Treasury and City of Reykjavík signed an agreement on pension fund commitments of employees with institutions that they operate jointly. The Treasury will pay the City 2.9 b.kr., and it is planned to produce an annual statement of the division between Treasury and City commitments as

they are incurred. Since the Treasury had already made allowance for these commitments, they did not require a special transfer in the State Accounts for the year.

On April 5, Icelandic government debt securities became eligible for settlement and custody in Clearstream Banking of Luxembourg. Eligible securities are benchmark housing bonds, housing authority bonds, Treasury notes and indexed Treasury bonds.

On April 8, the Federation of Special and General Workers (SGS) signed a new wage settlement with the state for its member unions. In effect until March 31, 2008, the settlement raises wage costs by 20.4% over its term, or 4.7% per year on average. These rises are higher than in the private sector settlements made by national unions within the Icelandic Federation of Labour (ASÍ), because the pension fund contribution paid by the state will be increased from 6% to 11.5%, in line with terms for other civil servants.

On April 10, the government bond series RIKS 04 0410 was redeemed for 5 b.kr.

On April 11, Decode Genetics declined a 20 b.kr. Treasury guarantee that parliament had authorised the Minister of Finance to grant. Consequently, the government withdrew its application for an opinion on the guarantee from the EFTA Surveillance Authority, where it had been under scrutiny.

The majority of national unions within ASÍ completed their wage settlements with SA in the second half of April. The Union of Icelandic Electrical Workers (RSÍ) signed up on April 15, followed by the Commercial Federation of Iceland (LÍV) and the Commercial Workers' Union in Reykjavík (VR) on April 21, the Icelandic Federation of Food and Restaurant Workers (Matvís) on April 24

and the Federation of Skilled Construction and Industrial Workers (Samiðn) on April 29. All settlements are in effect until December 31, 2007 and entail broadly the same increases in wage costs as the settlement between SGS and SA, although they differ in certain details.

May 2004

On May 4, Straumur Fjárfestingarbanki hf., an investment bank, was licensed as a securities broker.

On May 6, the Central Bank of Iceland announced that it had decided to raise its policy interest rate (i.e. its repo rate in transactions with credit institutions) by 0.2 percentage points to 5.5% as of May 11. The Bank's other interest rates were also raised by 0.2 percentage points on May 11.

On May 11, the National Debt Management Agency signed agreements with market makers concerning issues of Treasury bonds. From June 1, 2004 six banks have been designated principal market makers: commercial banks Íslandsbanki hf, KB banki hf and Landsbanki Íslands hf; investment bank MP Fjárfestingarbanki, the savings banks' clearing house Sparisjóðabanki Íslands, and savings bank Sparisjóður Reykjavíkur og nágrennis.

On May 13, the Housing Financing Fund announced it had commissioned Deutsche Bank AG of London to act as advisor and lead manager for the restructuring of its benchmark housing bonds.

On May 19, the Central Bank of Iceland announced changes to its Rules on Transactions with the Central Bank by Credit Institutions Subject to Minimum Reserve Requirements. Under the new Rules, maturities of the Bank's regular market instruments, i.e. repurchase agreements and certificates of deposit, are shortened from 14 days to 7 days, effective as of June 1, 2004.