

Economic and monetary chronicle

April 2012

On 6 April, the Executive Board of the International Monetary Fund (IMF) completed its 2012 Article IV Consultation on the status and outlook for the Icelandic economy. At the same time, the Board discussed its report on the follow-up evaluation of the Stand-By Arrangement between the Fund and the Icelandic authorities, which concluded in August 2011.

On 13 April, the Financial Supervisory Authority issued a memorandum concerning the Supreme Court judgment of 15 February 2012 on the validity of full-payment receipts. The memorandum summarises the Authority's conclusions concerning the potential effect of the judgment on the book value of exchange rate-linked loans in credit institutions' loan portfolios. The Authority concluded that the Supreme Court judgment did not jeopardise financial stability; however, it reiterated that all uncertainty about settlement of exchange rate-linked loans was detrimental to the financial system and stressed the importance of eliminating such uncertainty.

On 16 April, the Financial Supervisory Authority announced rules on insurance companies' bonus systems. The new rules are similar to those on financial institutions' bonus systems, dated 30 June 2011. They took effect upon publication, 27 March. An employee's bonus may not exceed 25% of his or her annual salary exclusive of bonuses. Furthermore, payment of a portion of the bonus shall be deferred for at least three years so as to take into account business cycle fluctuations that might affect performance. The rules also provide for reduction, revocation, or reimbursement of bonuses when performance targets are not reached.

On 19 April, the Ministry of Economic Affairs received a Letter of Formal Notice from the EFTA Surveillance Authority (ESA), in which ESA announces that a general prohibition of exchange rate linkage of loans disbursed in Icelandic krónur, as is stipulated in the Act on Interest and Price Indexation, no. 38/2001, is in contravention of Article 40 of the EEA Agreement.

On 30 April, the Financial Supervisory Authority announced that it had revoked its confirmation of the mutual fund Stefmir – Lausafjársgjóður [Stefmir – Liquidity Fund], operated by Stefmir hf. The fund was confirmed by the Authority on 27 January 2011 but has now discontinued its operations. The Authority has confirmed a new investment fund operated by the company under the same name.

May 2012

On 3 May, the Republic of Iceland finalised contractual agreements for the issuance of a bond in the amount of 1 billion US dollars (124 b.kr.).

The bond bears fixed interest and is issued for 10 years at a yield of 6.0%. Demand amounted to roughly 4 billion US dollars.

On 4 May, the Financial Supervisory Authority granted Negotium a licence to operate as a securities company.

On 4 May, Íslandsbanki announced that it had expanded two covered bond series previously admitted for trading on the stock exchange. The seven-year bond ISLA CBI 19 was expanded by 635 m.kr. at a yield of 2.90%, and the 12-year ISLA CBI 24 was expanded by 850 m.kr. at a yield of 3.48%. In all, Íslandsbanki has issued covered bonds in the amount of 8,815 m.kr. since its first issuance in December 2011.

On 9 May, the Central Bank of Iceland purchased euros in exchange for Icelandic krónur for long-term investment in the Icelandic economy, or in exchange for payment in Treasury bond series RIKS 33 0321. The Bank had also advertised for bids on the sale of Icelandic krónur for cash payment in foreign currency. The auctions were an element in the liberalisation of restrictions on movement of capital. In the euro purchase auction, the Central Bank accepted bids in the amount of 38.6 million euros. The auction was structured with a single-price format, so that all accepted offers were made available to primary dealers at the same price, which was set at 238.8 kr. per euro. In the króna purchase auction, bids in the amount of 9.1 b.kr. were accepted. All accepted bids were made available to primary dealers at the same price, which was set at 239 kr. per euro.

On 11 May, Parliament passed Parliamentary Resolution no. 20/140, which authorised the Government to confirm an agreement with Norway, the Faeroe Islands, Russia, and the European Union on fishing from the Atlanto-Scandian herring stock in 2012, with reciprocal fishing rights in territorial waters. The agreement permits Iceland to fish 120,000 tonnes per year from the stock.

On 11 May, Arion Bank announced the conclusion of its first auction of non-indexed covered bonds. Bonds were sold to institutional investors in the nominal amount of 1.22 b.kr. in the Arion CB 15 series.

On 16 May, the FME authorised Landsbankinn hf. to acquire all of the operations and assets of Sparisjóður Svarfdæla.

On 16 May, the Monetary Policy Committee of the Central Bank of Iceland decided to raise the Bank's interest rates by 0.5 percentage points. The overnight lending rate was raised to 6.5%, the seven-day collateralised lending rate to 5.5%, the maximum rate on 28-day certificates of deposit (CDs) to 5.25%, and the current account rate to 4.5%.

June 2012

On 8 June, a ruling was announced by the committee appointed to determine the fee to be paid by the Government to Landsbankinn

hf. for its takeover of deposits and assets of SpKef savings bank. The committee concluded that the Government must pay Landsbankinn hf. 19 b.kr.

On 13 June, the Monetary Policy Committee of the Central Bank of Iceland decided to raise the Bank's interest rates by 0.25 percentage points. The overnight lending rate was raised to 6.75%, the seven-day collateralised lending rate to 5.75%, the maximum rate on 28-day certificates of deposit (CDs) to 5.5%, and the current account rate to 4.75%.

On 15 June, it was announced that Landsbankinn hf. and the old Landsbanki Íslands hf. had concluded an agreement to the effect that Landsbankinn hf. would prepay one-fourth of the principal of so-called A-bonds, which were issued in 2010 due to the value mismatch between assets and liabilities transferred from Landsbanki Íslands hf. The prepayment is in euros, US dollars, and pounds sterling, in the equivalent of 73 b.kr.

On 18 June, it was announced that the Treasury of Iceland and the Central Bank of Iceland prepaid a total of 171 b.kr. on loans taken from the International Monetary Fund (IMF) and the Nordic countries in connection with the IMF-led Stand-By Arrangement (SBA). The transaction included the prepayment of SDR 319 million (the equivalent of 62 b.kr.) to the IMF, and 674 million euros (the equivalent of 109 b.kr.) to the Nordic countries.

On 18 June, Parliament passed Act no. 78/2012 Amending the Act on Collections; namely, the rules on repossession by collection agents. In the future, collections agents must obtain the written consent of a debtor in default before repossessing non-real estate assets. Otherwise, the collection agent must obtain authorisation in accordance with the Act on Execution, no. 90/1989.

On 18 June, Parliament passed Act no. 84/2012 Amending the Housing Act, no. 44/1998, with subsequent amendments. The main purpose of the Act is to comply with EFTA Surveillance Authority (ESA) guidelines requiring that the Icelandic authorities take the necessary action to ensure that the Housing Financing Fund's (HFF) lending arrangements are more consistent with the provisions on State aid in the EEA Agreement; that is, that the Fund shall not enjoy a Government guarantee in the form of an owner guarantee, interest subsidies, exemptions from profitability requirements, and payment of income tax. The Act strengthens the HFF's social role and revokes its authorisation to grant loans to firms, including construction contractors. As a result, it will only be permissible to grant loans to individuals for renovation, construction, or purchase of residential property. Loans from the Fund may not exceed 80% of the appraised value of the property (as opposed to the previous 90%), and the total HFF bond amount may not be less than 40% of the official property valuation. This means that the HFF will be prohibited from lending for the purchase of property with an official valuation exceeding 50 m.kr. The Act also incorporates

a fundamental but temporary change in the HFF's operations: that one of its roles will be to own and operate a leasing company for property repossessed by the Fund.

On 19 June, Parliament passed Act no. 69/2012 Amending the Value-Added Tax Act. Among the amendments are authorisations to reimburse municipalities for value-added tax on fire and pollution control equipment and to reimburse a portion of the value-added tax on hydrogen-powered, electric, and hybrid motor vehicles.

On 19 June, Parliament passed the Fishing Fee Act, no. 74/2012. The new Act provides for a basic fishing fee of 9.50 kr. per allocated cod equivalent kilogram and a special fishing fee totalling 65% of a base, which takes account of the value of the catch and/or product, less i) operating expenses other than cost of capital, and ii) a calculated annual payment in lieu of interest and depreciation, which shall be based on a return of 8%. The basic fishing fee will be subtracted from the special fee. At the same time, Parliament passed Act no. 75/2012 Amending the Fisheries Management Act to accord with the Act on Fishing Fees and extending the Temporary Provisions in the Fisheries Management Act.

On 19 June, Parliament passed Act no. 77/2012 Amending the Act on Financial Undertakings, no. 161/2002, with subsequent amendments. The aim of the Act is to strengthen the operational foundations of the savings bank system, which has been under pressure in recent years. In order to enable savings banks to meet their need for increased capital, it is permissible to operate them as limited liability companies. The term "savings bank" will therefore no longer be restricted to a specific type of non-profit organisation but will be a collective term for a specific type of financial institution that is operated either as a non-profit organisation or as a limited liability company but is nonetheless required to restrict its operations primarily to conventional commercial banking activities and to devote at least 5% of the profit from the previous year's operations to social projects in its geographical region of operation. In addition, the merger opportunities for savings banks operated as non-profit organisations are expanded. Moreover, savings banks with a minimum of 5 million euros in guarantee capital or share capital will be authorised to conduct securities trading. Finally, Temporary Provision VI of the Act on Financial Undertakings, concerning the Financial Supervisory Authority's authorisation to intervene in operations, is extended until year-end 2013, as the future structure of these issues has not been decided by the European Union.

On 19 June, Parliament passed Act no. 79/2012 Amending the Act on Deposit Guarantees and an Investor-Compensation Scheme, no. 98/1999, with subsequent amendments. The Act permanently incorporated the Temporary Provisions set with Acts no. 15/2011 and 55/2011, which pertained only to premiums for the year 2011, into the body of the Act on Deposit Guarantees and an Investor-Compensation Scheme. The main changes that appear in the new Act and

were not included in Temporary Provision II are that the general premium decreases from 0.3% to 0.225% and the Board of the Depositors' and Investors' Guarantee Fund is now authorised to grant permission to defer payment of the premium in extraordinary circumstances.

On 20 June, the Financial Supervisory Authority revoked the operating licence of EA fjárfestingarfélag ehf., as the company was subjected to winding-up proceedings with a ruling by the District Court of Reykjavík on 1 June.

On 20 June, the Central Bank of Iceland purchased euros in exchange for Icelandic krónur for long-term investment in the Icelandic economy, or in exchange for payment in Treasury bonds in the RIKS 33 0321 series. The Bank had also advertised for bids on the sale of Icelandic krónur for cash payment in foreign currency. The auctions were an element in the liberalisation of restrictions on movement of capital. In the euro purchase auction, the Central Bank accepted bids in the amount of 23.7 million euros. The auction was structured with a single-price format, so that all accepted offers were made available to primary dealers at the same price, which was set at 245 kr. per euro. In the króna purchase auction, bids in the amount of 7.5 b.kr. were accepted. All accepted bids were made available to primary dealers at the same price, which was set at 246 kr. per euro.

On 21 June, the Supreme Court confirmed the District Court ruling in Saga Capital's case against the Financial Supervisory Authority, which had revoked Saga Capital's operating licence. Saga Capital had subsequently been subject to winding-up proceedings with a District Court ruling. Saga Capital appealed the District Court ruling to the Supreme Court, which upheld the ruling with reference to the general rule that an appeal to the courts does not defer the legal effect of an administrative decision.

On 29 June, the EFTA Surveillance Authority (ESA) approved the State aid granted in connection with the recapitalisation and reconstruction of Íslandsbanki. According to the ESA decision, the Government's actions related to the establishment and restructuring of the bank entailed State aid that is permissible under the EEA Agreement, as the Government had provided the bank with a capital contribution in the form of share capital and a subordinated loan, as well as liquidity facilities.

July 2012

On 2 July, trading in real estate company Reginn hf.'s shares began on the NASDAQ OMX Iceland exchange. The company was the second to be listed on the exchange after the 2008 financial crisis.

On 13 July, the Minister of Fisheries announced catch quotas for the 2012-2013 fishing year. Cod quotas were increased by 18,000 tonnes from the previous year, haddock quotas were reduced by 9,000 tonnes, and other demersal fish quotas increased by a total of 1,400 tonnes from the 2011-2012 quotas.

On 20 July, it was announced that the European Central Bank (ECB) had recovered, in full, 4 billion euros loaned against collateral to subsidiaries of Glitnir, Kaupthing, and Landsbanki Luxembourg in October 2008, as a part of regular ECB facilities in the euro area. Close collaboration on the issue took place between the Central Bank of Iceland and the Banque centrale de Luxembourg, in part to prevent the sale of hypothecated assets under extremely adverse conditions.

On 30 July, the Central Bank of Iceland announced that it had decided to increase its regular foreign currency purchases from market makers for an unspecified period beginning on 31 July 2012. From September 2010 onwards, the Bank had bought half a million euros per week from each of the market makers in the interbank foreign exchange market. After the change, the Bank bought 1 million euros per week from each market maker.

August 2012

On 20 August, the Financial Supervisory Authority granted Straumur fjárfestingarbanki hf. [Straumur Investment Bank hf.] expanded authorisations to operate as a credit institution.

On 22 August, the Central Bank of Iceland Monetary Policy Committee decided to hold the Bank's interest rates unchanged. The overnight lending rate remained 6.75%, the seven-day collateralised lending rate was 5.75%, the maximum rate on 28-day certificates of deposit (CDs) 5.5%, and the current account rate 4.75%.

On 29 August, the Central Bank of Iceland purchased euros in exchange for Icelandic krónur for long-term investment in the Icelandic economy, or in exchange for payment in Treasury bond series RIKS 33 0321. The Bank had also advertised for bids on the sale of Icelandic krónur for cash payment in foreign currency. The auctions were an element in the liberalisation of restrictions on movement of capital. In the euro purchase auction, the Central Bank accepted bids in the amount of 18.6 million euros. The auction was structured with a single-price format, so that all accepted offers were made available to primary dealers at the same price, which was set at 235 kr. per euro. In the króna purchase auction, bids in the amount of 3.8 b.kr. were accepted. All accepted bids were made available to primary dealers at the same price, which was set at 236 kr. per euro.

On 30 August, it was agreed at a Cabinet meeting to entrust a work group with assessing the status and outlook for the Housing Financing Fund (HFF) balance sheet. The work group was to include representatives from the Ministry of Finance and Economic Affairs, Prime Minister's Office, Ministry of Welfare, and Ministry of Industry, in consultation with the HFF and its Board.

September 2012

On 1 September, the Ministry of Economic Affairs, Ministry of Industry, Energy, and Tourism, and Ministries of Agriculture and Fisheries merged to form the new Ministry of Industries and Innovation.

On 7 September, it was announced that the savings bank Sparisjóður Svarfdæla and Landsbankinn hf. had come to an agreement that Landsbankinn would abandon its plans to acquire the savings bank's operations and assets, as the Savings Banks' Guarantee Fund had agreed to contribute new guarantee capital to Sparisjóður Svarfdæla and grant a subordinated loan so that the savings bank would meet the Financial Supervisory Authority's 16% capital adequacy requirement.

On 11 September, the Financial Supervisory Authority granted Landsbréf hf. expanded authorisations to operate as a UCITS management company.

On 14 September, the Financial Supervisory Authority approved the merger of savings bank Sparisjóður Ólafsfjarðar and Arion Bank hf. Arion Bank will take over all rights and responsibilities of Sparisjóður Ólafsfjarðar, and the two companies will be merged under the name Arion Bank hf.

On 28 September, a mission from the International Monetary Fund (IMF) concluded its visit to Iceland in connection with post-programme monitoring of the Iceland's Stand-By Arrangement with the IMF.

