

# IV

## CENTRAL BANK OF ICELAND ACCOUNTS AND ORGANISATION

### CENTRAL BANK OF ICELAND OPERATING RESULTS

The Central Bank of Iceland's financial position changed sharply in 2003. The Bank's balance sheet shrank and its composition altered significantly. Total assets amounted to 116.6 b.kr. at the end of 2002 but decreased by one-quarter during 2003 to 87.3 b.kr. at the end of the year. The main reason was the greatly reduced requirement of deposit money banks (DMBs) and other financial institutions for Central Bank facilities in the form of repurchase agreements. Primarily, this change reflects the effect that Central Bank currency purchases and a reduction in the minimum reserve requirement had on the liquidity of DMBs and other financial institutions, by reducing their dependence on Central Bank facilities. Through its currency purchases in the domestic interbank market, the Central Bank was able to repay all its foreign short-term debt during the year, in addition to increasing its foreign reserves by 21 b.kr. One consequence of this action and of the drop in facilities for credit institutions was that the share of foreign assets grew from 32% to 67% of total assets. On the liabilities side, foreign liabilities decreased from just under 16% to just over 2% of total liabilities, capital and reserves. These changes have exacerbated the Central Bank's exchange rate risk, leaving its profitability even more susceptible to exchange rate revaluation than before.

The drop in facilities for credit institutions and interest rates in international markets brought the Central Bank's interest income down by more than 5 b.kr. from the previous year. Interest expenditure on domestic and foreign liabilities went down by 2.5 b.kr. The króna appreciated during the year and an exchange rate loss of 1.9 b.kr. was posted to the accounts, compared with 2.6 b.kr. in 2002. Net interest income therefore decreased by 1.9 b.kr. This reduction was the main factor contributing to the Central Bank's operating loss of 36.8 m.kr. for the year. In 2002 the operating profit was 2.1 b.kr. Due to the loss on its operations, the Central Bank will not pay a transfer to the Treasury for the year 2003. It is not the Central Bank's objective per se to produce a profit, but rather to perform its mandatory functions regarding price

stability and the financial system. The major changes in the Bank's balance sheet are reflected in its profit and loss account. Among other things, these are a consequence of the large-scale and necessary strengthening of the Bank's external position and changes to bring rules on minimum reserve requirements into line with those applied in the European Union. Both measures had the side-effect of a massive reduction in credit institutions' need for Central Bank repo facilities, which had been a major source of interest income.

Operating expenditure in 2003, including the cost of note and coin issues but excluding the amount of 196 m.kr. expensed on account of pension fund commitments of former staff of the National Economic Institute,<sup>1</sup> amounted to 1,117 m.kr., compared with 1,097 m.kr. the previous year.

The Central Bank's foreign assets amounted to 58.3 b.kr. at the end of 2003, an increase of almost 21 b.kr. during the year despite an exchange rate loss amounting to 1.9 b.kr. Foreign short-term liabilities were negligible at the end of the year compared with 16.5 b.kr. at the end of 2002.

In 2003, the Bank's claims on DMBs and other financial institutions decreased by 49 b.kr. The bulk of these claims are connected with Central Bank repos with these institutions. Deposits of DMBs and financial institutions at the Central Bank also dropped, from 24.3 b.kr. at the end of 2002 to 11.1 b.kr. at end-2003. The main explanation lies in the new rules on minimum reserve requirements mentioned above.

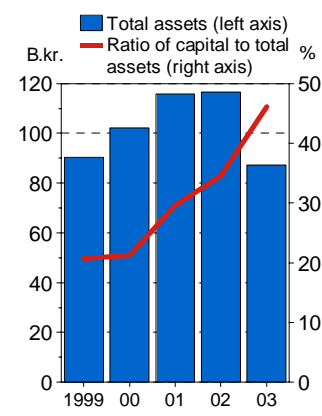
Claims on the Treasury and other central government, in the form of listed securities, decreased by 1.1 b.kr., while the Treasury's deposits at the Central Bank remained virtually unchanged. Net claims on the Treasury and other central government decreased by 0.6 b.kr. during the year and were negative by 22.2 b.kr., i.e. Treasury and other central government deposits amounted to 22.2 b.kr. at year-end.

Notes and coin in circulation were equivalent to 12.6% of the Bank's total liabilities at the end of 2002, but had grown to almost 23% at the end of 2003. As a proportion of GDP, notes and coin in circulation have for many years been lower in Iceland than in most other countries.

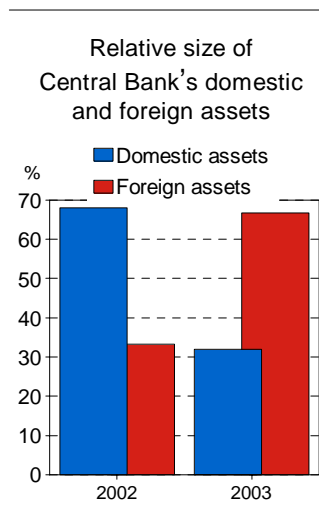
The Central Bank's capital and reserves remained broadly unchanged in the course of the year, and amounted to 40.2 b.kr. at end-2003. Equity ratio was 46% at the end of 2003, having risen from 34.5% the year before.

An itemisation of the Central Bank's accounts along with detailed explanatory notes for individual items and an itemisation of operating costs are presented later in this report.

Total assets and ratio of capital to total assets



1. See note 7 to the Financial Accounts on p. 62 of this Annual Report.



### SUPERVISORY BOARD

The Central Bank Act No. 36/2001 which was passed by parliament in May 2001 stipulated that there shall be seven members of the Supervisory Board, to be elected following a parliamentary election. After the general election in May 2003, Ólafur G. Einarsson, Hannes Hólmsteinn Gissurarson, Jón Sigurðsson, Ragnar Arnalds and Sigríður Stefánsdóttir were re-elected. Two new Board members were elected: Helgi S. Guðmundsson and Ingibjörg Sólrún Gísladóttir, replacing Davíð Aðalsteinsson and Þröstur Ólafsson. Davíð Aðalsteinsson had been a member of the Board for a continuous period since 1985 and Þröstur Ólafsson since 1985 apart from the period from 1990 to 1994. Þröstur Ólafsson was Chairman of what was then known as the Board of Directors from 1994 to 1998 and an Alternate Member from 1981 to 1985. At the first meeting of the new Supervisory Board, Ólafur G. Einarsson was elected Chairman and Helgi S. Guðmundsson Deputy Chairman. Jón Sigurðsson, a member of the Supervisory Board, was appointed to the Board of Governors from October 1, 2003. Jónas Hallgrímsson was elected to the Supervisory Board in his place. The Central Bank's Supervisory Board held 20 meetings in 2003.

### BOARD OF GOVERNORS

In August 2003, the Prime Minister appointed Jón Sigurðsson to the Board of Governors of the Central Bank of Iceland for a term of seven years, effective October 1, 2003. Ingimundur Friðriksson, Assistant Governor, had been temporarily appointed to the vacant post from October 1, 2002. Jón Sigurðsson was born in 1946. He has a PhD in Educational Administration and an MBA. He has been president of a business college, general manager of an employees' association, and project manager at the Iceland Chamber of Commerce and at the Confederation of Icelandic Employers. Mr. Sigurðsson has been a member of the board of directors of several companies, a member of the Supervisory Board of the Central Bank, and chairman of the board of the Regional Development Fund of Iceland.

Birgir Ísleifur Gunnarsson's term of appointment as Chairman of the Board of Governors expired at the end of January 2003 and he was reappointed Chairman from February 1, 2003 to the end of July 2006. Eiríkur Guðnason's five-year term of appointment as Governor expires at the end of April 2005.

### CENTRAL BANK ORGANISATION

The Bank's activities in 2003 were divided into seven departments, plus internal auditing (see staff list at the end of this section). Some units do not belong to any of the main departments. The Governors' Office provides secretarial services to the Governors, handles various public relations and information communications activities, and oversees publishing of the Bank's annual report and website. Legal Services handles the preparation of contracts and a variety of legal documents,

and participates in the preparation of laws and regulations regarding the banking system, as well as legal opinions. The Library, Archives and Collection unit oversees the Bank's book and document collection along with the joint numismatic collection of the Central Bank and the National Museum. The library and numismatic collection are housed at Einholt 4 in Reykjavík.

The International Department manages the foreign exchange reserves and issues related to the Treasury's foreign borrowing. In this context, the Department also handles regular relations with international credit rating agencies. Furthermore, the Department handles the Bank's regular relations with the International Monetary Fund, including Nordic and Baltic cooperation, and is involved in the preparation of one of the Bank's publications, *Economy of Iceland*.

The Accounting Department keeps the Central Bank's main accounts and those of the Depositors' and Investors' Guarantee Fund, and manages the Greenland Fund. In addition, the Department keeps the accounts related to the redemption of government bonds and the Treasury's foreign borrowing operations. It also supervises the Bank's SWIFT system and payments for the Central Bank, Treasury and State enterprises.

The Financial Stability Department covers all aspects of the stability and safety of financial institutions and markets, and analysis of financial system fundamentals. The department is also responsible for the Bank's role regarding payment and settlement systems. The Bank's Cashier's Unit belongs to the Financial Stability Department and its tasks include the issue, distribution and collection of notes and coin.

In the Economics Department, research is conducted in the economic and monetary fields with special emphasis on topics connected to the Bank's responsibilities. The Department also prepares the Bank's regular macroeconomic and inflation forecasts and assessments of the Bank's policies and activities, along with analyses of economic and monetary developments. The Economics Department is responsible for a number of the Bank's publications, such as the quarterly *Peningamál/Monetary Bulletin*, *Fjármálatíðindi*, *Hagvísar* and *Economy of Iceland*.

The Monetary Department has two broad main roles. Firstly, it prepares all the Bank's interest rate decisions, collects information on interest rates in financial markets in Iceland and abroad, and collaborates with the Ministry of Finance and the Debt Management Agency concerning the sale of government securities. Secondly, it handles all the Bank's transactions on domestic foreign exchange and money markets and the quotation of the official exchange rate of the króna, as well as overseeing the interbank króna market.

The Operations and IT Department has the largest number of staff and is divided into a number of units. It handles the operation of the Bank's real estate and equipment, security, procurement, budgeting and expenditure control. This Department also handles human resources and

payroll as well as a variety of in-house services. The Information Technology unit supervises the Bank's computer system operations and handles software system maintenance.

The Statistics Department collects, processes and provides preliminary analysis of data from credit institutions on their operations and balance sheets, etc. It also collects data on payment and securities intermediation, securities brokerage, currency movements in connection with preparation of the external service and capital account balance, and foreign debt. The Department is responsible for the publication of statistical material on the Bank's website (*Monthly Statistics*) and operation of the harmonised database.

The Internal Auditing Department enjoys a special position in that the Bank's chief auditor is appointed by the Supervisory Board rather than by the Board of Governors. The Internal Auditing Department audits the Bank's accounts and handles internal audit of the activities of the Bank and funds managed by it.

#### PERSONNEL

At the end of the year there were 118 employees at the Central Bank of Iceland, 67 male and 51 female, which is one less than at the end of the previous year. The number of full-time equivalent positions was 110.4. Two employees are in part-time posts equivalent to 1.4 positions, and the Banks' Data Centre was responsible for 7 of the 15 positions in the joint cafeteria, security and maintenance and janitorial services it shares with the Central Bank. Total man-years were 120.2, an increase of 2.2 from 2002. The accompanying table shows the number of employees per department, not including the 11 regular cleaning staff who are in effect part-time employees of the Bank.

During the year, 10 persons were hired by the Bank, of whom three were in part-time positions. Among them was a full-time translator. Ingimundur Friðriksson returned to his position as Assistant Governor.

Eleven employees left the Bank in all, four of them due to retirement. Two employees took leave. The number of positions decreased by 1 in the course of the year. The number of positions increased by 1 at the Economics Department and 2 at Accounting, but decreased by 2 at the International Department and 2 at Financial Stability (one of them temporarily).

The following four employees retired during 2003: Björn Björgvinsson (who joined the Bank in 1968), Financial Stability Department; Kristín Hjartar (1971), Operations; Loftur Þór Sigurjónsson (1974), Operations; and Ingibjörg Guðmundsdóttir (1987), Operations.

	Staff Man- no. years	
Secretariat	14	13.6
Governors' Office	4	4.0
Legal Services	2	2.0
Library and Archives	8	7.6
International Department	5	5.0
Accounting Department	12	12.0
Financial Stability Department	14	14.0
Financial Stability	4	4.0
Cashier's Unit	10	10.0
Economics Department	16	15.8
Monetary Department	5	5.0
Operations Department	40	33.0
Operations Division	33	26.0
IT	7	7.0
Statistics Department	9	9.0
Internal Auditing Department	3	3.0
<b>Total</b>	<b>118</b>	<b>110.4</b>

#### WAGE AGREEMENTS

Most Central Bank employees are members of the Federation of Bank Employees and are paid salaries according to its wage agreements. At the beginning of 2001 a new wage settlement was made which is in

force until September 2004. This agreement involved a 6.9% rise in basic wages from the time it entered into force, and a 3% rise at the beginning of each subsequent year that it remains in effect.

#### **EQUAL OPPORTUNITIES COMMITTEE**

An equal opportunities committee has been active at the Central Bank since 1996, when the Bank's equal opportunities plan was also devised. The current plan was ratified in 2001 and is based on Act No. 96/2000 on the Equal Status and Equal Rights of Men and Women. The equal opportunities committee is comprised of two representatives of the Board of Governors and two representatives of the Bank's staff association. The committee shall have an overview of laws and official regulations on gender equality and monitor amendments to them. It also monitors implementation of the Bank's equal opportunities policy and examines the grounds for suggestions of non-compliance with gender equality laws and regulations within the Bank. Furthermore, the committee is entrusted with the task of dealing with sexual harassment and bullying within the Bank, should any cases occur. Committee members shall be prepared to listen to remarks from employees concerning its tasks. The committee submits an annual report on its tasks to the Board of Governors.

## CENTRAL BANK OF ICELAND DECEMBER 31, 2003

### Supervisory Board

#### Principal members

Ólafur G. Einarsson, Chairman  
Helgi S. Guðmundsson, Deputy Chairman  
Hannes Hólmsteinn Gissurarson  
Ingibjörg Sólrún Gísladóttir  
Jónas Hallgrímsson  
Ragnar Arnalds  
Sigríður Stefánsdóttir

#### Alternate members

Birna M. Olgeirsdóttir  
Erna Gísladóttir  
Hilmar Gunnlaugsson  
Jón Þór Sturluson  
Kristrún Heimisdóttir  
Sigfús I. Sigfússon  
Tryggvi Friðjónsson

#### Board of Governors

Birgir Ísleifur Gunnarsson, Chairman  
Eiríkur Guðnason  
Jón Sigurðsson

#### Assistant Governor

Ingimundur Friðriksson<sup>1</sup>

#### Principal Officers

Erla Árnadóttir, Chief Accountant  
Ingvar A. Sigfússon, Director of Operations and IT  
Lilja Steinþórsdóttir, Chief Auditor  
Már Guðmundsson, Chief Economist<sup>1</sup>  
Jón Þ. Sigurgeirsson, Director of International Department  
Sveinbjörn Hafliðason, Chief Attorney  
Sveinn E. Sigurðsson, Director of Statistics Department  
Tómas Örn Kristinsson, Director of Monetary Department<sup>1</sup>  
Tryggvi Pálsson, Director of Financial Stability Department

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1. Attends meetings of the Supervisory Board.

## SECRETARIAT

### *Governors' Office*

Ágústa Johnson, Division Chief  
Ellen Hrefna Haraldsdóttir  
Stefán Jóhann Stefánsson, Editor

### *Legal Services*

Sigfús Gauti Þórðarson, Deputy Chief  
Attorney  
Sveinbjörn Hafliðason, Chief Attorney

### *Library, Archives, Collection*

Anton Holt  
Bergljót Gyða Helgadóttir  
Eva Sóley Sigurðardóttir  
Jónas Finnbogason, Division Chief  
Magný Gyða Ellertsdóttir  
Ólafur Pálmason, Manager  
Sveinbjörg Rut Helgadóttir  
Valborg Stefánsdóttir

## INTERNATIONAL DEPARTMENT

Hallgrímur Ólafsson  
Jón Þ. Sigurgeirsson, Director  
Lilja D. Alfreðsdóttir  
Oddgeir Gunnarsson  
Sigurður Sturla Pálsson, Deputy Director

## ACCOUNTING DEPARTMENT

Alf H. Pedersen  
Anna S. Árnadóttir  
Arndís Leifsdóttir  
Árni Þórðarson, Deputy Chief  
Accountant  
Erla Árnadóttir, Chief Accountant  
Halldóra Konráðsdóttir  
Heiðrún Hulda Þórisdóttir  
Ísólfrur Sigurðsson, Division Chief  
Jónína Guðbjartsdóttir  
Ólöf Jónsdóttir  
Runólfur Sigurðsson  
Örn Jónsson

## INTERNAL AUDITING DEPARTMENT

Guðmundur Björnsson, Deputy Chief  
Auditor  
Helga Halldórsdóttir  
Lilja Steinþórsdóttir, Chief Auditor

## FINANCIAL STABILITY DEPARTMENT

Hallgrímur Ásgeirsson, Deputy Director  
Haukur C. Benediktsson  
Pálína Kristinsdóttir  
Tryggvi Pálsson, Director

### *Cashier's Unit*

Auður Gísladóttir, Division Chief  
Birna Friðriksdóttir  
Hannes Haraldsson  
Ingibjörg Jakobsdóttir  
Ingveldur S. Kristjánssdóttir  
Jóhanna Pétursdóttir  
Kolbrún Jóhannsdóttir  
Kristján Guðmundsson  
María Jenný Jónasdóttir  
Stefán Arnarson, Chief Cashier

## ECONOMICS DEPARTMENT

Arnór Sighvatsson, Deputy Chief  
Economist  
Ásgeir Danielsson  
Björn Arnar Hauksson  
Elin Guðjónsdóttir  
Guðmundur Guðmundsson  
Guðmundur Sigfinnsson  
Hjördís Dröfn Vilhjálmssdóttir  
Kirstín Þ. Flygenring  
Kristjón Kolbeins  
Lúðvík Eliasson  
Magnús Fjalar Guðmundsson  
Markús Möller  
Már Guðmundsson, Chief Economist  
Ólafur Örn Klemensson  
Rannveig S. Sigurðardóttir  
Þórarinn G. Pétursson, Division Chief

## MONETARY DEPARTMENT

Bergur Barðason  
Gerður Ísberg, Deputy Director  
Halldór Sveinn Kristinsson  
Kolbrún Guðlaugsdóttir  
Tómas Örn Kristinsson, Director

## OPERATIONS DEPARTMENT

Anna María Pétursdóttir, Human  
Resources  
Bernard Scudder  
Birna K. Jónsdóttir  
Hólmfríður M. Ingibergsdóttir  
Ingvar A. Sigfússson, Director  
Þórður Gautason, Deputy Director

### *Maintenance and Janitorial Services*

Berglind Þorsteinsdóttir  
Bylgja Þorvarðardóttir  
Edda Kristjánssdóttir  
Eygló Ingvadóttir  
Hrönn Hallgrímsdóttir  
Marteinn Jóhannesson  
Ólafía Egilsdóttir  
Sigurlaug Jósepsdóttir  
Sólveig Edda Ingvarsdóttir

Sólveig Kristinsdóttir  
Stefanía Hrönn Guðnadóttir  
Svala Sigurðardóttir  
Sören P. Madsen  
Þorsteinn Eyjólfsson, Superintendent

### *Cafeteria*

Bergþóra Óskarsdóttir  
Guðlaug Erla Ingólfssdóttir  
Halla Kristín Björnsdóttir  
Ólína Sigríður Einarssdóttir  
Sigurberg Jónsson, Chef

### *Printing and Postal Services*

Guðrún Sigmarssdóttir  
Hjördís Thorarensen  
Hólmgeir H. Hákonarson  
Klara Jóhannsdóttir  
Ólöf Björnsdóttir  
Sif Cortes  
Sveinn A. Blöndal, Section Head

### *Secretaries*

María Skúladóttir  
Sigríður Bogadóttir  
Þórey Þórarinsdóttir

### *Transport*

Garðar Halldórsson  
Karl G. Smith

### *Security*

Brynjólfur Samúelsson  
Guðleifur Svanbergsson  
Gunnlaugur Magnússon  
Hannes Ólafsson  
Jóhann Gunnar Friðjónsson, Section  
Leader  
Sveinbjörn Kristjánsson  
Þorsteinn Þorvaldsson

### *Information Technology Unit*

Arnar Freyr Guðmundsson, Manager  
Einar Örn Ólafsson  
Guðmundur Harðarson  
Indriði I. Stefánsson  
Mark R. Eldred  
Takako I. Jónsson  
Tryggvi Eyvindsson

## STATISTICS DEPARTMENT

Anna Sif Gunnarsdóttir  
Eiður H. Einarsson  
Hrönn Helgadóttir  
Jakob Gunnarsson, Deputy Director  
Kristjana Baldursdóttir, Division Chief  
Óttar Örn Helgason  
Pétur Örn Sigurðsson  
Sigríður Fanney Úlfjótssdóttir  
Sveinn E. Sigurðsson, Director