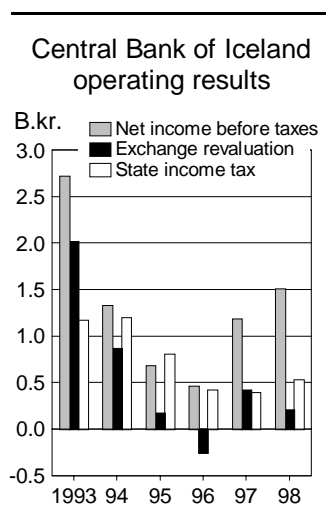


IV

CENTRAL BANK OPERATIONS AND ORGANISATION

CENTRAL BANK ACCOUNTS

In 1998, the Central Bank's operating profit amounted to 1,509 million krónur, up from 1,181 million krónur in 1997. After tax, the 1998 profit amounted to 979 million krónur compared with 787 million krónur in 1997. Tax to the Treasury amounted to 531 million krónur. By law, the tax is equal to 50 percent of the average profits of the three previous years, after deduction of a contribution to the Dividend Fund. In calculating each year's profit, amounts are adjusted to the price level at the end of the three-year period.



Operating expenditure in 1998 amounted to 745 million krónur, an increase of 4.3 percent from the previous year. Taking into account the rise in the consumer price index and the wage index, operating expenditure fell in real terms by 1.4 percent. As mentioned earlier, tax to the Treasury was 531 million krónur, real estate and other taxes were 31 million krónur, the contribution to the operating cost of the National Economic Institute was 56 million krónur and the grant to the Science Fund was 145 million krónur. Taxes and other legislated charges thus amounted to a total of 763 million krónur.

The Central Bank's foreign assets rose by almost 2 billion krónur in 1998 while foreign liabilities increased by nearly 4 billion krónur. The Bank's net foreign asset position thus deteriorated somewhat. In 1998, the Bank's claims on deposit money banks and other financial institutions rose sharply, not least in connection with repurchase agreements with these institutions. On the other hand, claims on the Treasury and other state institutions declined and the Treasury's deposits at the Central Bank more than trebled. The Bank's holdings of marketable securities contracted by almost 8 billion krónur during the year, mainly because of the redemption of government securities, both on the due date and early. The Central Bank's equity rose by 1.3 billion krónur in the course of the year, to 17.9 billion krónur at end-1998.

The Central Bank's profit position is highly sensitive to the

exchange rate revaluation of assets and liabilities. The exchange rate revaluation is determined, on the one hand, by changes in the exchange rate of the króna and, on the other, by changes in relative exchange rates of major currencies. In 1998, the exchange rate revaluation was positive by 207 million krónur. At year-end, foreign currency assets represented about 40 percent of total assets and foreign currency liabilities amounted to 16 percent of total liabilities. The Central Bank's detailed accounts along with explanatory notes for individual items are presented later in this report, including an itemisation of the Bank's operating costs.

BOARD OF DIRECTORS

The term of the Board of Directors elected by Parliament in late 1994 ended on October 30, 1998. Parliament elected a new Board of Directors in November 1998 for a four-year term until the end of October 2002.

The Board of Directors of the Central Bank of Iceland met twenty times in 1998.

BOARD OF GOVERNORS

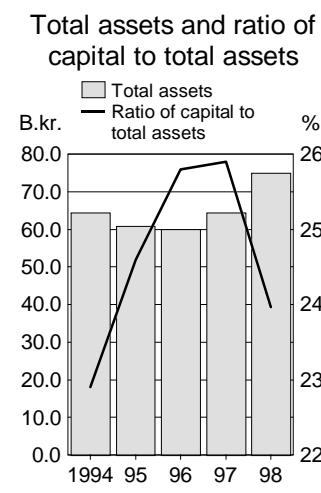
The Board of Governors is composed of three Governors. One of them, Governor Steingrímur Hermannsson, retired at the end of June 1998. He became Governor on May 1, 1994. Previously, Mr. Hermannsson had been Managing Director of the Research Council, member of parliament and government minister almost continuously from 1978 to 1991, including Prime Minister from 1983 to 1987 and from 1988 to 1991. A new Governor had not been appointed at year-end.

MINISTERIALLY APPOINTED AUDITOR

The Central Bank Act stipulates that in addition to internal auditing under the auspices of the Board of Directors, the State Auditor General and an auditor, who must be a certified public accountant appointed by the Minister of Commerce for a four-year term, should audit the Bank's accounts. A new ministerially appointed auditor was appointed in January 1999.

CENTRAL BANK ORGANISATION

At the beginning of 1999, the Central Bank's activities were divided among six departments, plus auditing. 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 dissemination activities, oversees the publication of some of the Bank's publications, as well as its homepage on the web. Lawyers handle the preparation of contracts and a variety of legal documents and



participate in the preparation of laws and regulations as well as legal opinions. The library and archives unit takes care of the Bank's book and document collection along with the joint coin collection of the Central Bank and the National Museum. The computer services unit operates the Bank's computer systems and is responsible for software development and maintenance.

The International Department takes care of the international reserves and issues related to the Treasury's foreign borrowing. In this context, the Department also handles relations with international credit rating agencies. Furthermore, the Department handles the Bank's relations with the International Monetary Fund and oversees one of the Bank's publications.

The Accounting Department keeps the Central Bank's main accounts, as well as those of the National Economic Institute and the Energy Fund. In addition, the Department keeps the accounts related to the redemption of government bonds and the Treasury's foreign borrowing operations.

In the Economics Department, research is conducted in the economic and monetary areas with special emphasis on topics connected to the Bank's responsibilities. The Department also prepares assessments of the Bank's policies and analyses of economic and monetary developments, and is responsible for a number of the Bank's publications.

The activities of the Monetary Department are threefold. First, the Department prepares the Bank's interest rate decisions, collects information on domestic and foreign interest rates and collaborates with the Ministry of Finance and the Debt Management Agency concerning the sale of government securities. Second, the Department 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 market in krónur. Third, the Department takes care of the Bank's increasing responsibilities connected to payment intermediation.

The Operations and Cash Department has the largest number of staff and is divided into a number of units. The operations unit handles the operation of the Bank's fixed assets, security, procurement and expenditure control. This unit also oversees the preparation of new notes and coins. The unit handles the personnel function and payroll as well as a variety of in-house services. The unit also handles payroll for the National Economic Institute and the Debt Management Agency. The cash unit takes care of notes and coins, including distribution to note storage facilities in the regions and to banking institutions in the Reykjavik area. The customer service unit handles various services, such as government bond subscriptions and the redemption of government bonds and other securities.

The Statistics Department collects, processes and provides preliminary analysis of data from credit institutions on their operations and balance sheets. The Department also collects data on payment and secu-

rities intermediation, on currency movements in relation to the preparation of the external service balance and the balance of payments, and on foreign debt.

The Auditing Department enjoys a special position in that the Bank's chief auditor is appointed by the Board of Directors rather than the Board of Governors. The Auditing Department audits the Bank's accounts as well as those of funds managed by the Bank. The Bank's operations are also audited by a ministerially appointed certified public accountant and the State Auditor General.

Two standing committees play an important role: the market committee and the financial stability committee, the latter established in early 1999. Both advise the Board of Governors, the market committee on the Bank's market operations and related matters and the financial stability committee on all matters relevant to the stability and security of financial institutions and markets, as was discussed in chapter II.

PERSONNEL

At the end of 1998, Central Bank employees numbered 135, 73 males and 62 females, 6 fewer than at end-1977. Positions at end-1998 were 125.3 compared with 147 at end-1990. Of 15 positions in the canteen and security, 7 are attributable to the Banks' Data Centre and the National Economic Institute. The average number of positions in the course of the year was 128.5, a decline of 1.1 from the year before. During the year, 19 persons were hired while 25 left the Bank. University-educated persons filled nearly one-half of all positions. The distribution of staff according to task is shown in the margin. Staff movements have been unusually frequent in the recent period, partly because of intense competition for qualified staff and expanded opportunities for mobility.

Ten of those who left the Bank retired, among them some long-serving staff. Bjarni Bragi Jónsson, Economic Advisor to the Board of Governors, retired after 22 years in the Bank; Sigurður Örn Einarsson, Director of Foreign Department, after 44 years; Skúli Sigurgrímsson, head of the customer service unit in the Operations Department, after 41 years; and Stefán G. Thórarinsson, Director of Operations Department, after 42 years. Also, Thórður Ólafsson, Director of the Bank Inspectorate, left to take advantage of other opportunities. He had led the Bank Inspectorate from 1978.

From the beginning of 1990 to April 30, 1996, when the Central Bank launched an equal opportunity plan, 34 positions were advertised. Applicants were 196, 151 males and 45 females. Males were hired for 29 positions and females for 5. Females constituted 23 percent of applicants but received less than 15 percent of advertised positions. From April 30, 1996 to end-1998, additional 23 positions were advertised. Applicants were 129, 95 males and 34 females. Females constituted 26 percent of applicants but were hired to fill 43 percent of the advertised

	<i>Staff no.</i>	<i>Man- years</i>
Secretariat	21	19.5
Governors' Office	5	5
Legal Services	2	2
Library and Archives	7	5.9
Computer Services	7	6.6
International Department	7	7
Accounting Department	10	10
Supervision Department	15	14.9
Bank Inspectorate	14	13.9
Foreign Exch. Control	1	1
Economics Department	11	10.5
Monetary Department	7	7
Operations and		
Treasury Department	47	39.6
Operat. and Personnel	29	22
Cash Division	12	11.6
Customer Services and Securities	6	6
Statistics Department	11	11
Audit Department	6	5.8
Total	135	125.3

positions. At the end of 1998, females filled 22.5 percent of management and other advertised positions in the Bank, up from 18.6 percent at end-1997 and 15.3 percent at end-1996. The Board of Governors approved a new equal opportunity plan for the Bank in January 1999.

According to new legislation governing the supervision of financial institutions, the Central Bank's Bank Inspectorate and the Insurance Supervisory Authority merged in the Financial Supervisory Authority on January 1, 1999. The legislation guaranteed employees of the Bank Inspectorate jobs in the Financial Supervisory Authority. All 14 of them were employed by the Authority on January 1, 1999. The Central Bank continues to pursue tasks related to the stability of the financial system and the Bank needs to have a clear view of the financial position of the institutions it deals with. It also deals increasingly with tasks related to payment intermediation. It is therefore apparent that the departure of staff with the banking inspection function will not reduce the Bank's staff accordingly, as additional staff will be needed to handle tasks related to financial stability and payment intermediation.

PENSIONS

At the beginning of 1998, new regulations governing the pension fund of employees of the National Bank and the Central Bank took effect. The fund was renamed the Bank Employees' Pension Fund. The main changes were that the guarantees provided by the National Bank and the Central Bank were abolished, as was the so-called successor rule for determining pensions. Henceforth, after the payment of pensions commences, they will be indexed to the consumer price index. During the year, the Central Bank settled its accrued liabilities to the Pension Fund (see explanatory notes with the Annual Accounts). At the same time, its contribution rate rose.

In 1998, the Central Bank's Board of Directors passed new regulations governing the pension entitlements of Governors which replace regulations from 1989. The changes made included the elimination of the Central Bank guarantee and the successor rule. According to the new regulations, Governors make contributions to the Bank Employees' Pension Fund and accrue pension rights in the Fund as well as in a personally earmarked fund. The entitlements will be fully in line with the regulations of both funds as they are at any given point in time.

CENTRAL BANK OF ICELAND DECEMBER 31, 1998

Board of Directors

Principal members

Ólafur G. Einarsson, Chairman
Davíð Aðalsteinsson, Deputy Chairman
Ingunn Elín Sveinsdóttir
Ragnar Arnalds
Thröstur Ólafsson

Alternative members

Erna Bryndís Halldórsdóttir
Finnur Þór Birgisson
Leó Löve
Kristín Sigurðardóttir
Margrét Heinreksdóttir

Board of Governors

Birgir Ísleifur Gunnarsson, Governor and Chairman
Eiríkur Guðnason, Governor

Assistant Governor

Ingimundur Friðriksson¹

Principal officers

Erla Árnadóttir, Chief Accountant
Gunnlaugur Arnórsson, Chief Auditor²
Ingvar A. Sigfússon, Director of Operations Department
Már Guðmundsson, Chief Economist¹
Ólafur Ísleifsson, Director of International Department
Ragnar Hafliðason, Director of Bank Inspectorate^{1, 3}
Sveinbjörn Hafliðason, Chief Attorney
Sveinn E. Sigurðsson, Director of Statistics Department
Yngvi Örn Kristinsson, Director of Monetary Department¹

1. Attends meetings of the Board of Directors.

2. In 1998 a new Chief Auditor, Lilja Steinhórsdóttir, was appointed effective May 1, 1999.

3. By Ministerial appointment.

SECRETARIAT/LEGAL SERVICES

Secretariat/Foreign Department

Ágústa Johnson Division Chief

Stefán Jóhann Stefánsson Editor

Legal Services

Sveinbjörn Hafliðason Chief Attorney

Sigfús Gauti Thórðarson Division Chief

Library, Archives, Collection

Ólafur Pálmason Head

Jónas Finnbogason Division Chief

Computer Services

Thór Hauksson Head

Agnar Örn Arason Division Chief

Ágúst Úlfar Sigurðsson Division Chief

INTERNATIONAL DEPARTMENT

Ólafur Ísleifsson Director

Jón Th. Sigurgeirsson Division Chief

Sigurður Sturla Pálsson Division Chief

ACCOUNTING DEPARTMENT

Erla Árnadóttir Chief Accountant

Árni Thórðarson Division Chief

Ísólfur Sigurðsson Division Chief

BANK INSPECTORATE

Ragnar Hafliðason Director

Jóhann H. Albertsson Senior Attorney

Ásta Thórarinsdóttir Division Chief

Thorsteinn E. Marinósson Division Chief

Stefán M. Gunnarsson Head of Foreign Exchange Control

AUDITING DEPARTMENT

Gunnlaugur Arnórsson Chief Auditor

Bjarni Kjartansson Division Chief

ECONOMICS DEPARTMENT

Már Guðmundsson Chief Economist

Arnór Sighvatsson Division Chief

Guðmundur Guðmundsson Statistician

Markús Möller Division Chief

Thórarinn G. Pétursson Economist

MONETARY DEPARTMENT

Yngvi Örn Kristinsson Director

Ólafur K. Ólafs Division Chief

Sigurður Árni Kjartansson Division Chief

OPERATIONS AND CASH DEPARTMENT

Ingvar A. Sigfússon Director

Thórður Gautason Division Chief

Customer Service

Thorsteinn Magnússon Head

Kolbrún Guðlaugsdóttir Division Chief

Cash Department

Jón H. Friðsteinsson Chief Cashier

Auður Gísladóttir Division Chief

STATISTICS DEPARTMENT

Sveinn E. Sigurðsson Director

Jakob Gunnarsson Division Chief

Kristína Baldursdóttir Division Chief