

Chronology of financial markets

April 2001 - April 2002

April 2001

On April 17, the treasury took a 250 million euro credit facility managed by Dresdner Bank.

On April 26, Frjálsi Investment Bank was delisted from Iceland Stock Exchange. After a takeover bid, Kaupthing hf. and an investor group that it led had acquired 98.64% of total capital stock in Frjálsi Investment Bank, which thereby no longer fulfilled conditions for listing on ICEX.

May 2001

On May 4, the Central Bank published its first inflation forecast after the introduction of inflation targeting. The Bank forecast that inflation in the second half of this year could reach 6% and would measure 5.7% over the year. This was based on assumptions of an unchanged exchange rate from April 26 to the end of the forecast period, and no alterations to existing wage agreements.

On May 4, Fitch announced its credit ratings for Landsbanki of A for long-term debt and F1 for short-term debt. F1 is the best rating issued by the agency. Apart from the Republic of Iceland, no Icelandic borrower has achieved a higher credit rating.

On May 21, the Debt Management Agency, on behalf of the Minister of Finance, accepted bids from Landsbanki, Búnadarbanki, Icebank and Kaupthing, which represented the lowest requested commission on market making for five government bond classes. The Debt Management Agency pays each market maker a turnover commission of 0.1% of the amount of its trading in each category, based on monthly turnover on Iceland Stock Exchange. A ceiling of 140 m.kr. p.a. is set for the total commission to be shared out among market makers.

June 2001

On June 8, Iceland Stock Exchange announced a change in the composition of its ICEX-15 index for

the period July 1, 2001 to January 1, 2002. Three new companies were added to the index: Kaupthing, Oliufélagid and SÍF, in place of Grandi, Thormóður rammi-Sæberg and Opin kerfi.

On June 13, shares in Islandssimi were listed on the ICEX main list. Listed capital stock was 587,995,000 kr.

On June 20, the Housing Financing Fund announced its decision to relaunch sales of housing authority bonds from categories 1 and 2 in 1996. Auctions are planned on June 27, September 1, October 1, November 1 and December 1. A sufficient quantity of bonds in these categories is expected to be offered for sale this year to meet the part of the Fund's borrowing requirement that cannot be realised with housing bond issues.

On June 21, the Central Bank intervened in foreign exchange market trading for the first time since inflation targeting was adopted. The exchange rate index had risen rapidly (i.e. the króna depreciated) on the previous day, and continued to do so when the market opened. After the Central Bank sold US dollars for 2.5 b.kr., the index fell again and the market calmed.

On June 22, the Ministry of Finance announced the treasury's decision to borrow 25 b.kr. abroad in order to boost the Central Bank's foreign position. It is planned to allocate part of this sum as a contribution to the Central Bank's capital, which is to be strengthened under the new Central Bank Act.

On June 26, the Minister of Commerce announced the start of preparations for privatisation of at least one-third of shares in Landsbanki through sale to a major investor. The sale is planned to take place before the end of 2001. A condition for the sale is that it will increase competition in Icelandic financial markets and enhance the bank's competitiveness.

July 2001

On July 1, changes were made in the domestic inter-bank market in line with an agreement made by the Governors of the Central Bank and foreign exchange market makers in the second half of June. Búnadarbanki, Íslandsbanki, Kaupthing and Landsbanki will act as market makers. For a trial period until the end of this year, the Central Bank will pay market makers a specified commission for performing their functions, while they undertake clear obligations in return.

On July 1, a new Interest Rates and Indexation Act no. 38/2001 entered effect, replacing Act no. 25/1987. The many changes introduced include new provisions on penalty interest rates and on the Central Bank's obligation to publish interest rates.

On July 6 a new currency basket took effect. The basket is reviewed annually on the basis of the composition of foreign trade and services during the previous year. The table below shows the new basket and the change from the one it replaces.

On July 16, new ICEX rules went into effect concerning publication of interim statements of listed companies. From Q3 inclusive, companies listed on

ICEX are obliged to publish their interim statements on a quarterly basis.

August 2001

On August 27, the Minister of Social Affairs announced a new fire insurance reference for housing bond loans. Loan ceilings had previously been 65% or 70% of the purchase price of housing or its fire insurance value, whichever was lower and depending upon whether a first housing purchase was involved. Under the new ministerial decision, from September 1, 2001 the reference will be 65% or 70% of purchase price, but never higher than 85% of fire insurance value.

September 2001

On September 24 the deadline expired for prospective major shareholders to apply for selection during the privatisation of Iceland Telecom (Landssími Íslands hf.). In all 17 investors announced an interest in acquiring a major shareholding in the company

On September 26, it was announced that the boards of Búnadarbanki and Lýsing hf. leasing company had approved for their part the merger of Lýsing into Búnadarbanki. Proposals to this effect were announced for approval by shareholders' meetings scheduled for November 10, 2001.

The Central Bank announced that the treasury had finalised a foreign loan facility aimed at strengthening the Bank's foreign position, cf. the Ministry of Finance announcement to this effect in June.

October 2001

On October 4, the government announced its decision to promote extensive reforms to private and corporate taxation. Firstly, major changes will be made to tax rates and tax reference limits for both private individuals and businesses. Secondly, inflationary accounting principles will be abandoned, having become a rarity in the accounting principles and tax systems of other countries. Thirdly, tax treatment of the conversion of self-employed businesses to limited liability form will be brought into line with harmonised rules on conversion of other types of businesses. Fourthly, various other changes will be made regarding the interpretation and implementation of tax law.

On October 22, the US credit rating agency Standard

New currency basket (%)					
Based on foreign trade in 2000					
Region	Currency	Exports	Imports	Average	Change from previous basket
USA.....	USD	26.13	27.86	26.99	1.73
Britain.....	GBP	14.92	14.61	14.77	0.40
Canada.....	CAD	1.76	0.96	1.36	-0.07
Denmark.....	DKK	8.29	9.07	8.68	-0.21
Norway.....	NOK	5.94	6.21	6.08	-1.53
Sweden.....	SEK	2.49	6.40	4.44	0.37
Switzerland.....	CHF	2.40	0.90	1.65	-0.46
Euro zone.....	EUR	33.78	29.54	31.66	0.23
Japan.....	JPY	4.29	4.45	4.37	-0.47
North America.....		27.89	28.82	28.35	1.66
Europe.....		67.82	66.73	67.28	-1.19
European Union.....		59.48	59.62	59.55	0.80
Japan.....		4.29	4.45	4.37	-0.47
Total.....		100.00	100.00	100.00	0.00

& Poor's affirmed an unchanged credit rating for the Republic of Iceland at A+ for long-term liabilities. The outlook was lowered from steady to negative.

On October 29, the deadline expired for non-binding bids for 25% of share capital in Iceland Telecom. This was phase two in the privatisation process which aims to find a major strategic investor that will strengthen Iceland Telecom, enhance its value and boost the Icelandic telecommunications market.

November 2001

On November 8, the Central Bank announced an 0.8 percentage point cut in its interest rates. After the cut, the Central Bank policy rate is 10.1%.

On November 10, a shareholders' meeting of Búnadarbanki Íslands hf. approved a proposal for the bank's merger with Lýsing hf. leasing company. It was assumed that Lýsing would be totally merged with the bank through a takeover of its assets and liabilities.

On November 20, Bakkavör Group hf. announced its acquisition of the British food producer Katsouris Fresh Foods Ltd. This is the largest corporate acquisition in Icelandic business history and makes Bakkavör Group hf. one of the largest corporations in Iceland.

December 2001

On December 12, the boards of directors of Búnadarbanki Íslands hf. and Gilding ehf. investment company announced their approval of a merger between these companies, whereby Gilding would be merged into Búnadarbanki.

On December 15, the minimum amount for payment orders in the Central Bank's RTGS system was lowered from 100 m.kr. to 25 m.kr.

January 2002

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 was 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 2002

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 short-term debt. The outlook on the long-term ratings was changed to negative from stable.

March 2002

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 2002

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.