

Chronology of financial markets

July 2001 - July 2002

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 accompanying table 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.

New currency basket 2001 (%)

Based on foreign trade in 2000

<i>Region</i>	<i>Cur- rency</i>	<i>Ex- ports</i>	<i>Im- ports</i>	<i>Aver- age</i>	<i>Change from previous basket</i>
USA.....	USD	26.13	27.86	26.99	1.73
UK.....	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 area.....	EUR	33.78	29.54	31.66	0.23
Japan.....	JPY	4.29	4.45	4.37	-0.47
<i>North America</i>		27.89	28.82	28.35	1.66
<i>Europe</i>		67.82	66.73	67.28	-1.19
<i>European Union</i>		59.48	59.62	59.55	0.80
<i>Japan</i>		4.29	4.45	4.37	-0.47
Total.....		100.00	100.00	100.00	0.00

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 22, the US credit rating agency Standard & 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 80 bp 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.

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. 33 in *Monetary Bulletin* 2002/2).

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.

May 2002

On May 8, it was announced that the Minister of Finance had assigned the Debt Management Agency with the issue of new category of non-indexed treasury bonds. With a lifetime of 11 years and maturing in May 2013, this will be the longest non-indexed category in the Icelandic financial market so far.

On May 21, the Central Bank lowered the interest rate on its repo agreements with credit institutions and on its O/N rate, both by 50 bp. Interest rates on credit institutions' deposits with the Bank were lowered by 20 bp at the same time.

On May 28, the government of Iceland announced a public offering of shares in Landsbanki Íslands hf. It was planned to sell 20% of total capital stock in the bank in this phase, reducing the state's holding from just over 68% to just over 48%. The sale took place in June and the plans were fully realised.

June 2002

On June 18, the Central Bank lowered the interest rate on its repo agreements with credit institutions by 30 bp to 8.5%, effective from June 25. Its other interest rates were also lowered by 30 bp, effective from the same time, except for those on credit institutions' deposits with the Bank which remained unchanged.

July 2002

On July 5, a new currency basket was announced following the annual revision on the basis of Iceland's foreign trade in goods and services in the preceding year. The new basket and changes from the previous year are shown in the table below.

New currency basket 2002 (%)

Based on foreign trade in 2001

<i>Region</i>	<i>Cur- rency</i>	<i>Ex- ports</i>	<i>Im- ports</i>	<i>Aver- age</i>	<i>Change from previous basket</i>
USA.....	USD	22.76	26.89	24.83	-2.16
UK.....	GBP	14.60	10.97	12.78	-1.99
Canada.....	CAD	1.50	0.96	1.23	-0.13
Denmark.....	DKK	7.78	8.54	8.16	-0.52
Norway.....	NOK	6.75	6.82	6.78	0.70
Sweden.....	SEK	1.80	5.16	3.48	-0.96
Switzerland.....	CHF	2.74	1.28	2.01	0.36
Euro area.....	EUR	38.73	35.43	37.08	5.42
Japan.....	JPY	3.34	3.95	3.65	-0.72
<i>North America</i>		24.26	27.86	26.06	-2.29
<i>Europe</i>		72.40	68.19	70.30	3.02
<i>European Union</i>		62.91	60.10	61.50	1.95
<i>Japan</i>		3.34	3.95	3.65	-0.73
Total.....		100.00	100.00	100.00	0.00

On July 10, the Executive Committee on Privatisation, on behalf of the Minister of Commerce, requested notification from parties interested in acquiring a shareholding of at least 25% in Landsbanki and

Búnadarbanki. A domestic or foreign investor was sought with the aim of strengthening the bank and boosting competition in the Icelandic financial market. It was stated that a 25% share would be sold in only one of the two banks if an acceptable price were fetched and talks led to a sale. The aim was then to sell the shareholding in the other bank later this year.

On July 19, it was announced that the Housing Financing Fund and Debt Management Agency had signed an agreement on the implementation of the Fund's agreement with market makers for housing bonds and housing authority bonds in the secondary market for the period July 1, 2002 to June 30, 2003. The Agency began formal supervision of this arrangement on Monday, 22 July.