

Economic and monetary chronicle

The format for the chronicle that has been published in Monetary Bulletin under the title “Chronology of financial markets” has been changed. Until now it has been confined to financial market events, but henceforth the chronicle will cover a wider field of economic and monetary events. Only a single quarter, roughly the period since the previous Monetary Bulletin was published, will now be covered, instead of a whole year. Due to the rescheduling of publication dates for Monetary Bulletin, however, the current chronicle covers a longer period.

October 2003

On October 1, the Minister of Finance announced the fiscal budget for 2004 along with a four-year public finance programme and medium-term economic forecast.

On October 3, a shareholders’ meeting of Íslandsbanki hf. agreed to increase the company’s share capital by a nominal value of up to 1.5 b.kr. in connection with its acquisition of Sjóvá-Almennar tryggingar hf. insurance company. Part of this authorisation was exercised on October 6 when the bank’s share capital was raised by a nominal 500 m.kr. to 9.5 b.kr. On October 10, Íslandsbanki hf.’s holding in Sjóvá-Almennar tryggingar hf. amounted to 77.13%.

On October 16, Kaupping Búnaðarbanki hf.’s acquisition of Finnish investment company Norvestia Oyj was confirmed.

On October 27, FME (the Financial Supervisory Authority) licensed securities company MP verðbréf hf. as a credit institution under the provisions of article 4, paragraph 1, point 3 of Act No. 161/2002, on Financial Undertakings. Following its licensing, the securities company was renamed MP fjárfestingarbanki hf. (investment bank).

On October 31, Norðurál aluminium company signed a memorandum of understanding with Suðurnes Regional Heating (Hitaveita Suðurnesja) and Reykjavík Energy (OR), on the supply of power to its proposed 90 thousand t.p.y. smelter expansion.

November 2003

On November 6 the Central Bank of Iceland published its quarterly *Peningamál* (*Monetary Bulletin*) containing a macroeconomic and inflation forecast, along with reports on financial markets and Central Bank measures and on financial stability.

On November 12, Íslandsbanki made a further acquisition of shares in Sjóvá-Almennar tryggingar hf. which increased its holding to more than 99%. In connection with the acquisition, Íslandsbanki hf. increased its share capital in stages. By November 10 the bank’s board of directors had exercised in full the authorisation granted by a shareholders’ meeting to increase its share capital by 1.5 b.kr. nominal.

On November 21, Nordea Bank Danmark A/S was licensed as a bond trader in the Iceland Stock Exchange (ICEX) trading system.

On November 27, parliament passed a bill increasing heavy duty vehicle tax and commodity tax on petrol by 8%, effective from the end of the year.

On November 27, the Ministry of Commerce announced that the final price of recently privatised Landsbanki Íslands hf. would be 700 m.kr. lower than originally provided for.

December 2003

On December 2, the Board of Governors of the Central Bank of Iceland announced that the Bank had adopted new Rules on Minimum Reserve Requirements of Financial Undertakings (credit institutions)

which are licensed to operate under Article 4, points 1, 2 and 3 of Act No. 161/2002 on Financial Undertakings. The new Rules completed changes announced by the Central Bank that had begun to be implemented in March. This second phase aimed to adjust the reserve base and the reserve ratios to the practices of the European Central Bank. The new Rules entered into force on December 21.

On December 2, the supplementary budget for 2003 was approved. Revenue estimates were raised by 6.4 b.kr., largely on account of corporate income tax, value-added tax and capital gains tax on dividends. Expenditure authorisations were raised by 12.6 b.kr.

On December 3, Íslandsbanki hf. acquired the entire shareholding held by investment company Fjárfestingarfélagið Straumur hf. in Framtak fjárfestingarbanki hf. investment bank (formerly Eignarhaldsfélag Alþýðubankans hf. and Þróunarfélag Íslands hf.) Framtak fjárfestingarbanki hf. was merged into Íslandsbanki hf., effective from January 1, 2004. Alongside the sale, Fjárfestingarfélagið Straumur hf. undertook to acquire Framtak fjárfestingarbanki hf.'s venture capital portfolio.

On December 5, a law was passed whereby employers will no longer be allowed to allocate a part of their national insurance contribution towards matching premiums paid by employees to voluntary pension savings schemes (equivalent to 10% of the employee's voluntary premium, to a maximum of 0.4% of the national insurance contribution base).

On December 12, an amendment to the Income Tax and Wealth Tax Act was passed, extending for two years the tax surcharge on high incomes which would have expired at the end of 2003. The tax surcharge on high incomes will be reduced in phases to 4% on top of the basic income tax rate for the tax year 2004 and 2% for 2005. Under rules determining interest payment rebates for homeowners, maximum interest payments qualifying for rebates were lowered from 7% of mortgage debt to 5.5% for rebates due in 2005. For 2004, rebates will be 90% of what they would have been under the old rules.

Amounts and references for the main benefit categories were increased by 2.5% between 2003 and 2004.

On December 12, the act granting tax concessions to international trading companies was repealed, effective from January 1, 2008. New international trading companies will not be licensed after March 1, 2004.

On December 15, parliament passed a law approving new pension rights for the President of Iceland, cabinet ministers, members of parliament and Supreme Court judges.

On December 15, Moody's Investors Service announced the upgrading of Kaupþing Búnaðarbanki hf.'s credit rating. The bank's long-term deposit and debt ratings were upgraded from A3 to A2, the subordinated debt rating from Baa1 to A3 and the financial strength rating from C to C+. The short-term rating was confirmed at P-1, which is the highest rating given. All these ratings continued to have a positive outlook. According to Moody's "the upgrading of these ratings reflects the successful merger ... [which] resulted in the creation of a well-diversified and dominant player with healthy financial fundamentals on the Icelandic financial market", and its "excellent performance" since then.

On December 16, Standard & Poor's upgraded its foreign currency outlook on the Republic of Iceland to positive from stable. It also affirmed the sovereign ratings, including A+/A-1+ for foreign currency and AA+/A-1+ for local currency.

On December 18, an agreement was signed between Norðurál aluminium company, Landsvirkjun (the national power company), Reykjavík Energy and Suðurnes Regional Heating on the supply of power to Norðurál's proposed smelter expansion.

On December 19 the Ministry of Finance announced that the personal income tax rate for 2004 would remain unchanged from 2003, at 25.75%. Local government authorities have announced an average municipal tax rate of 12.83% in 2004, compared with 12.80% in 2003. The income tax rate for 2004 will therefore be 38.58%. Local authorities may set their municipal tax rate in the range 11.24% to 13.03%. Of 104 local authorities, 67 intend to levy the maximum municipal rate, and 5 the minimum rate.

On December 21, officials of Kaupþing Búnaðarbanki hf. and the board of directors of Sparisjóður Reykjavíkur og nágrennis (SPRON, the Reykjavík and Environs Savings Bank) signed a declaration that work was in progress to convert SPRON into an independently operating subsidiary of Kaupþing Búnaðarbanki hf. It was proposed to convert SPRON into a limited liability company – which would require the consent of holders of primary guarantee capital in the savings bank, who then would swap their shares in exchange for shares in Kaupþing Búnaðarbanki hf. The bank was reported to plan to continue operating the savings bank as an independent entity.

On December 21 the SPRON board unanimously agreed to propose to holders of primary capital that the savings bank should be converted into a limited liability company. If agreed, a trust, SPRON-sjóðurinn ses., would retain an 81% holding in SPRON hf.

On December 22, the Central Bank of Iceland announced its decision to auction 14-day certificates of deposit to credit institutions which are subject to minimum reserve requirements, on December 30. The issue was aimed at reducing liquidity in circulation and thereby its expansionary effect. The Central Bank also announced it would hold further auctions of certificates of deposit as the circumstances warrant.

On December 29, holding company Samson eignarhaldsfélag ehf. remitted its final payment for the acquisition of the Treasury's holding in Landsbanki Íslands hf. Payment was for 12.5% of issued share capital in the bank, with a nominal value of 856 m.kr., and made in US dollars. At the same time, the investor group acquiring Búnaðarbanki Íslands hf. settled its payment for an 8.33% holding (37 million shares) owned by the Treasury in the merged KB banki hf. After these transactions, the commercial banks had been fully privatised.

On December 31, the Minister of Social Affairs announced that maximum loans from the Housing Financing Fund (HFF) would be raised from 9 m.kr. to 9.7 m.kr. for new housing, and from 8 m.kr. to 9.2 m.kr. for secondary market housing, effective from January 2, 2004. It is also planned to change the

HFF's bond issues into monetary loans on July 1, 2004. The loans will be financed by auctions of underlying "HFF bonds".

At the turn of the year 2003/2004, Kaupþing Búnaðarbanki hf. was renamed KB banki hf. All the bank's branches and activities in Iceland will bear the new name, while its international activities will continue under the Kaupthing brand.

January 2004

On January 1, general welfare benefits rose by 3%.

On January 2, FME (the Financial Supervisory Authority) approved an application by investment bank Straumur fjárfestingarbanki hf. to be licensed as a credit undertaking under the provisions of article 4, paragraph 1, point 3 of Act No. 161/2002 on Financial Undertakings. Straumur fjárfestingarbanki hf. applied for membership of Iceland Stock Exchange.

From the beginning of 2004, the Central Bank of Iceland will purchase 5 million US dollars weekly in the interbank FX market, instead of the weekly purchase of 12.5 million US dollars which had been made since May 2003. The aim of the Central Bank's currency purchases is to strengthen its foreign reserves.

On January 15, the Ministry of Finance published its macroeconomic forecast.

February 2004

On February 4, and again on February 19, the Ministry of Fisheries raised the quota for the capelin fishery by 80 thousand tonnes and 240 thousand tonnes respectively. This brought the total allowable catch of capelin up to 875 thousand tonnes, of which 737 thousand tonnes are earmarked for the Icelandic fleet under international agreements.

On February 5, Act No. 4/2004 was passed amending the Act on Financial Undertakings. One consequence of the amendment was that proposed plans to convert SPRON into a limited liability company were withdrawn and KB banki hf.'s previously announced acquisition of SPRON did not go ahead.

On February 24, KB banki hf. acquired 19,385,994 shares in Singer and Friedlander Group Plc. of the

UK, corresponding to 10.00% of its issued share capital. The acquisition brought KB banki hf.'s holding in the UK bank up to 37,866,694 shares (19.53%). KB banki hf. announced that it had no current intention to make a bid for Singer and Friedlander Group Plc.

March 2004

On March 7, two major blue-collar unions, Starfsgreinasambandið (SGS) and Flóabandalagið (comprising SGS member unions in southwest Iceland) agreed on wage settlements with the Confederation of Employers (Samtök atvinnulífsins). If approved by union members, the settlements will be in effect until December 31, 2007.