

Announcement concerning capital account liberalisation measures

In view of the capital account liberalisation measures announced today, the Central Bank of Iceland wishes to make the following statement.

The measures proposed by the authorities are intended to address a problem that stems from the settlement of the failed banks' estates. The purpose of the measures is to ensure that the final winding-up of the estates does not jeopardise monetary, exchange rate, and financial stability. In order to ensure that the settlement of the estates does not cause instability, it is necessary to adopt countervailing measures in order to mitigate the adverse effects deriving from distributions of domestic assets to foreign creditors. The purpose of the stability tax is to solve this problem by reducing the value of domestic assets that could cause instability upon exiting and to create a counterweight to them. Included in the proposed legislation on a stability tax are provisions intended to prevent the allocation of the tax from adversely affecting the money stock or having other effects that could pose a threat to economic stability.

Once the legislative bill on a stability tax, introduced before Parliament today, has been passed into law, the estates will have until the year-end to obtain an exemption from the Foreign Exchange Act guaranteeing that the above-mentioned conditions are fulfilled. According to Article 7 of the Foreign Exchange Act, the Central Bank is authorised to grant exemptions from the restrictions provided for in the Act. In evaluating requests for exemptions, the Central Bank shall consider the consequences of the capital controls for the applicant, the objective of the controls, and the impact that an exemption will have on monetary and exchange rate stability. If an exemption requested for a financial undertaking in winding-up proceedings entails an authorisation to carry out foreign exchange transactions and cross-border capital transfers in an amount exceeding 25 b.kr. in a single year, or if an exemption requested for a legal entity whose balance sheet is over 400 b.kr. in size could have a major impact on Iceland's debt position and could affect the ownership of the commercial banks, the Bank shall consult with the Minister and the Minister shall acquaint the Parliamentary Economic Affairs and Trade Committee with the economic impact of the exemption before it may be granted; cf. Article 13(g), Paragraph 2 of the Act.

In granting an exemption for the settlement of failed financial undertakings, the Central Bank of Iceland will consider the stability objectives on which the stability tax is based. In this context, the Central Bank will take into account the possible solutions presented during consultations between the Task Force for capital account liberalisation and representatives of the creditors and winding-up boards, as follows:

- to adopt measures that sufficiently reduce the negative impact of distributing the proceeds of the sale of the assets in Icelandic krónur;
- to convert other foreign-denominated domestic assets owned by the failed banks into long-term financing to the degree required; and
- where applicable, to ensure the repayment of the foreign-denominated loan facilities granted by the authorities to the new banks following the financial market collapse.

The Central Bank is of the view that the amendments to Foreign Exchange Act, Act on Financial Undertakings, and Act on the Central Bank of Iceland create conditions that will enable it to grant exemptions to the failed financial undertakings, provided that such exemptions are in line with the above and are thereby in compliance with Article 7 of the Foreign Exchange Act.