

Chronology of financial markets

July 2000 - July 2001

July 2000

On July 6, Icebank notified the Central Bank of its decision, effective one month later, to withdraw from participation in the interbank foreign exchange market. On July 13, the interbank foreign exchange market was closed between 10:00 and 12:00 hrs, on the decision of market makers. The decision was made because of heavy trading in the foreign exchange market and a sharp weakening of the króna that morning.

On July 18 trading began on Nasdaq in DeCode Genetics' shares.

On July 18 an announcement was made of Landsbanki's purchase of a majority of shares in British investment bank The Heritable and General Investment Bank Ltd. (HGI).

On July 20, the currency basket was revised on the basis of Iceland's foreign trade in goods and services in 1999.

August 2000

On August 8, Icebank withdrew from participation as a market maker in the interbank foreign exchange market.

September 2000

On September 4, the Danish Internet bank Basisbank began operations. Íslandsbanki-FBA owns a one-quarter share in Basisbank.

On September 11, the number of market makers for housing bonds and housing fund bonds increased from two to five when Íslandsbanki-FBA, Kaupthing Investment Bank and Icebank began participation. Prior market makers were Búnadarbanki and Landsbanki.

On September 29, Búnadarbanki announced that it has applied to the banking authorities in Luxembourg for a permit to operate a bank there.

October 2000

On October 2, the draft treasury budget for 2001 was presented to parliament, assuming a surplus of 30 billion kr.

On October 13, the government of Iceland instructed the boards of directors of Búnadarbanki and Landsbanki to initiate discussions on merging these banks, and announced that a prior ruling would be sought from the Competition Council.

On October 20, revised rules on the interbank foreign exchange market went into effect. Two main changes were made from the earlier rules. A provision authorising market makers to agree on temporary suspension of trading was withdrawn, and the minimum binding amount for trading was raised from USD 1 million to USD 1½ million.

On October 26, Kaupthing hf. was listed on Iceland Stock Exchange.

On October 27, Íslandsbanki-FBA launched a 250 million floating rate note issue, the largest eurobond issue ever made by an Icelandic financial institution.

November 2000

On November 1, the Central Bank raised its interest rates by 0.8 percentage points. After the rise, prepaid interest on Central Bank intraday lending is 12.4% and interest on repurchase agreements with deposit institutions is 11.4%.

On November 7, Bonus Dollar Stores, a subsidiary of Baugur hf., announced it had signed an agreement with Institutional Equity of Dallas which would act as lead manager for the listing of Bonus Dollar Stores on Nasdaq Small Caps in connection with its IPO. The company aims for listing in February 2001.

On November 10, the Minister of Finance announced that, instead of amortising the 15 billion kr. of its foreign debt which matures in 2001, the treasury would roll over the debt with new foreign borrowing.

On November 14, Íslandsbanki-FBA, Landsbanki and Icebank signed an agreement on issuance of T-bills and trading in the secondary market. The agreement aims to secure T-bill issues and boost secondary market price formation. Primary dealer auctions will take place at intervals of two months.

December 2000

On December 4, Íslandsbanki-FBA announced plans to purchase a 56.2% shareholding in Rietumu Banka of Latvia. The Íslandsbanki-FBA board approved the terms of the acquisition subject to due diligence and approval by the Central Bank of Latvia.

On December 18, the Competition Board ruled that the proposed merger of Búnadarbanki Íslands and Landsbanki Íslands would contravene the Competition Act.

On December 22, the Central Bank of Latvia approved Rietumu Banka's purchase of a 100% holding in another Latvian Bank, Saules Banka. The merger has created one of the largest corporate and private banking entities in the Baltic.

Trading on Iceland Stock Exchange reached a record volume on 29 December at 12.5 b.kr.

On December 31, Kaupthing and its clients signed a declaration of intent with Olíufélagid oil company, Samvinnulífeyrissjóður pension fund, Traustfang investment company and Vátryggingarfélag Íslands insurance company, together with Isoport A.S., whereby Kaupthing undertook to purchase at least 2/3 of total share capital in Frjálsi Investment Bank from the above parties. The declaration of intent was signed subject to approval by the sellers' boards and due diligence.

January 2001

On January 10, Búnadarbanki Íslands announced that it had been notified by the Financial Supervisory Authority on January 5 of the need for a further investigation into trading by the bank and its equity fund with shares in Pharmaco hf. over the period from June 7, 1999 to March 2000. In the FSA's opinion, Búnadarbanki and its equity fund were in possession of confidential information during the said period.

On January 24 the Central Bank traded in the inter-bank foreign exchange market following a dive in the

króna after the market opened at 9:15. The Central Bank sold US dollars for 2.06 b.kr., which served to restore calm to the market.

On January 26, the Central Bank signed an agreement with the German bank DePfa Europe on a USD 250 million credit facility, to increase its scope for taking measures in the foreign exchange market.

February 2001

The US credit rating agency Moody's Investor Service affirmed its credit rating for the Republic of Iceland in a news release on February 7. In its new report on Iceland, Moody's considered Iceland's credit rating stable, reflecting substantially improved public sector debt levels and the government's firm economic policies which have laid the foundation for robust growth and stability. Comprehensive structural reforms undertaken over the past decade have "involved budget consolidation, financial and product market deregulation, enhanced diversification of the productive and export base, and increased monetary stability. When combined with the refinement of fisheries management and a more liberal attitude toward foreign investment, the favorable macroeconomic environment facilitated a burst of growth and a dramatic improvement in living standards," Moody's reported. However, it warned that "this rapid growth has engendered serious imbalances that could imperil Iceland's hard-won economic stability going forward."

The National Debt Management Agency announced results of an issue of RIKB 07 0209, a new non-indexed, zero coupon bullet note maturing on February 9, 2007.

On February 13, it was announced that the marketing division of Frjálsi Investment Bank would be discontinued, following the acquisition of a majority holding in it by a group led by Kaupthing hf.

March 2001

On March 16, the National Debt Management Agency held its last auction under the agreement on a new system of authorised dealers for T-bills and market makers for them.

From March 23 to 27, the Central Bank of Iceland repeatedly needed to sell US dollars for domestic currency with the aim of defending the fluctuation

band of the króna. In all, it sold dollars for 6.8 b.kr. The main cause of the unease was uncertainty about the outcome of the Central Bank's annual meeting which had been announced for March 27.

On March 27, the Central Bank and the Prime Minister of Iceland signed a declaration on a reform of the monetary policy framework which went into effect on March 28. Instead of its intermediate objective of maintaining the exchange rate within a fluctuation band, the Central Bank will henceforth target monetary policy towards an inflation rate as close as possible to 2½%, with specified tolerance limits. The government of Iceland grants the Central Bank of Iceland full independence to apply its instruments in order to achieve its inflation target. At the same time as the announcement of the reform in monetary policy, the Central Bank announced that it had lowered the interest rate on its repo agreements with credit institutions by 0.5 percentage points.

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, Ólúfélagid 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 fund 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 accompanying table shows the new basket and the change from the one it replaces.

New currency basket (%)					
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
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
<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