

Economic and monetary chronicle

July 2006

On July 1, the Housing Financing Fund's loan-to-value ratio was temporarily lowered from 90% to 80% and the maximum mortgage amount from 18 m.kr. to 17 m.kr. as part of the government's restraint package.

On July 4, Glitnir Bank announced that all conditions for its acquisition of the Swedish brokerage firm Fischer Partners Fondkommission AB had been met and the transaction was complete. The acquisition price was 3.7 b.kr.

On July 6, the Governors of the Central Bank of Iceland announced that the Bank would raise its policy interest rate (i.e. its repo rate in transactions with credit institutions) by 0.75 percentage points to 13%. Interest rates on overnight loans and required reserves were raised by 0.5 percentage points and other Central Bank interest rates by 0.75 percentage points. All raises were made as of July 11. The Board of Governors also decided to assess the need for further monetary restraint in the middle of August and announce a decision on interest rates on August 16.

On July 17, Standard & Poor's Ratings Services lowered its long-term local currency issuer credit rating on the Icelandic Housing Financing Fund (HFF) to AA- from AA+. The rating was removed from Credit-Watch. At the same time, the AA- long-term foreign currency and the A-1+ short-term foreign and local currency ratings on HFF were affirmed. The foreign currency outlook is negative but the local currency outlook is stable.

August 2006

On August 16, the Governors of the Central Bank of Iceland announced that the Bank would raise its policy interest rate (i.e. its repo rate in transactions with credit institutions) by 0.5 percentage points to 13.5%. Interest rates on overnight loans and required reserves were raised by 0.25 percentage points and other Central Bank interest rates by 0.5 percentage points. Interest rates on one-week certificates of deposit and the repo rate were raised as of August 22 and other rates as of August 21.

September 2006

On September 12, Moody's Investors Service downgraded the Bank Financial Strength Rating of Kaupthing Bank from C+ to C. At the same time it affirmed Kaupthing's A1/Prime-1 deposit ratings. The outlook on all ratings is stable.

On September 12, Glitnir Bank announced the issue of subordinated bonds in the amount of 250 million US dollars (18 b.kr.). The issue is classified as Tier 1 capital.

On September 14, the Governors of the Central Bank of Iceland announced that the Bank would raise its policy interest rate (i.e. its repo rate in transactions with credit institutions) by 0.5 percentage points to 14%. Other Central Bank interest rates were also raised by 0.5 percentage points. Interest rates on one-week certificates of deposit and the repo rate were raised as of September 19 and other rates as of September 21.

On September 25, Landsbanki announced that all conditions for its acquisition of Guernsey-based bank Cheshire Guernsey Limited had been met and the transaction was complete. The bank was included in the Landsbanki Group consolidated accounts as of the end of Q3/2006 and its name will subsequently be changed to Landsbanki Guernsey Limited.