

Chronology of financial markets

February 1999 - February 2000

February 1999

On February 23, the Central Bank raised its interest rates by 0.4 percentage points and introduced a minimum liquidity requirement on credit institutions. The minimum liquidity requirement is primarily a prudential measure. Nevertheless, in the early months in which it is in effect it could restrain the capacity of credit institutions to grant new credit. It will also have the effect of reducing the reliance of credit institutions on short-term foreign credit. The regulations became effective on March 21.

April 1999

The Housing Financing Fund sold housing bonds for 2.2 billion kr. from two classes, BN20-0101 and BN38-0101.

On April 21, the Central Bank presented an inflation forecast of a 2.4 percent average increase in consumer prices between 1998 and 1999 and an increase of 2.8 percent in the course of 1999. Prices were projected to rise by 1.0 percent during the second quarter, or 4.2% on an annual basis.

June 1999

On June 21, the Central Bank raised its interest rates by 0.5 percentage points.

On June 25, the currency basket of the exchange rate index was changed following an annual review of the basket, taking into account changes in the composition of external trade in 1998.

The US credit rating firm Moody's gave the Agricultural Bank Ltd a credit rating of A3/P2 and D for financial strength.

July 1999

On July 22, the Central Bank presented an inflation forecast of a 3.0 percent average increase in consumer prices between 1998 and 1998 and an increase of 4.0 percent in the course of 1999. Prices were projected to rise by 1.0 percent during the third quarter, or 5.2% on an annual basis.

September 1999

The Housing Financing Fund sold housing bonds for 2.0 billion kr. from two classes, BN20-0101 and BN38-0101.

On September 15, The treasury announced, at the request of the Minister of Finance, its intention of redeeming government securities and reducing the outstanding government benchmark securities.

On September 20 and 21, the Central Bank raised its interest rates by 0.6 percentage points.

October 1999

On October 25, the Central Bank presented an inflation forecast of a 3.3 percent average increase in consumer prices between 1998 and 1999 and an increase of 4.6 percent in the course of 1999. Prices were projected to rise by 1.0 percent during the fourth quarter, or 4.1% on an annual basis.

The Treasury sold its 51% holding in FBA (The Icelandic Investment Bank) for 9.7 billion krónur.

On October 25, the Central Bank began publishing statistics on the Icelandic economy on its website www.sedlabanki.is. Statistics mainly relate to areas directly under the Bank's field of activities and are upgraded weekly.

November 1999

The first issue of the Central Bank's Monetary Bulletin was published on November 24. This quarterly publication contains coverage of economic and monetary issues and financial market developments, in addition to articles and statistics.

December 1999

The treasury sold 15% of its holdings in Landsbanki and Búnadarbanki. Shares in the banks were sold both by subscription and bid. The sales value was just under 6 billion krónur.

The US credit rating firms Moody's Investor Service and Standard & Poor's confirmed their credit ratings for the Republic of Iceland. Ratings are Aa3 and A+ for long-term liabilities and P-1/A-1+ for short-term liabilities denominated in foreign currency. For liabilities in Icelandic krónur the Republic received the top rating, Aaa from Moody's and AA+ from Standard & Poor's.

On December 8 the Althingi (parliament) passed Act no. 90/1999 on the Security of Payment Orders in Payment Systems. The Act covers the payment systems operated in Iceland.

On December 21 parliament passed Act no. 96/1999 amending the Central Bank Act no. 36/1986, with later amendments. The amendment extended the definition of liquidity specified in Art. 8 of the Act.

New rules on liquidity of credit institutions which have required deposits went into effect on December 31. Based on different principles from earlier rules, these involve a comprehensive assessment of their liquid assets and liquid liabilities (see box on p. 18).

January 2000

New rules on indexation of savings, credit, etc. went into effect on January 1. The permissible difference between credit institutions' indexed assets and liabilities was extended from 20% to 30% of equity. Scheduled provisions in the Central Bank's rules from June 1995, changing authorization for indexation of savings and lending, were not implemented. The minimum term for indexation to apply will remain 3 years for deposits and 5 years for loans.

On January 1, an amendment to the Central Bank Act no. 36/1986 entered into effect, transferring responsibility for the Bank from the Minister of Commerce to the Prime Minister.

On January 1, Greidslumidlun hf. (Visa Iceland) was granted a permit to operate as a credit institution.

On January 12, the Central Bank raised its interest rates by 0.8 percentage points.

On January 24, the Central Bank presented an inflation forecast of a 5% average increase in consumer prices between 1999 and 2000 and an increase of 3.8% in the course of 2000. Prices were projected to rise by 0.9% during the first quarter, or 3.7% on an annual basis.

February 2000

New rules on the interbank market for krónur went into effect on February 1. The main change was that market participants undertake to make offers for specified sums with a maturity of 9 and 12 months. The Central Bank will calculate and publish REIBOR and REIBID 9- and 12-month rates.

New rules on Central Bank transactions with credit institutions which have required deposits went into effect on February 1. The main changes involved the formal incorporation of provisions concerning correction of transaction errors, and switching of the Central Bank's deadline for announcing forthcoming weekly repo auctions from Friday after closing to the Monday morning. A new bond category was announced, SLST023/2, which may be used in transactions with the Central Bank.

On February 3 the international credit rating firm Fitch IBCA gave the Republic of Iceland a credit rating of AA- for long-term liabilities in foreign currencies. The Republic was given the rating F1+ for short-term foreign liabilities and AAA for its domestic liabilities, which is the highest rating given by the firm.

On February 11, the Central Bank raised its interest rates by 0.3 percentage points and announced that it had extended the exchange rate bands from $\pm 6\%$ to $\pm 9\%$.