

Economic and monetary chronicle

June 2005

On June 3, 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 9.5% as of June 7. For one-week certificates of deposit, the rate of interest was set at 0.15 percentage points below the repo rate and ceilings were abolished in weekly auctions. Other Central Bank interest rates were also raised as of June 11: on credit institutions' current accounts in the Central Bank by 0.75 percentage points and on overnight loans by 0.25 percentage points.

On June 15, Íslandsbanki hf. announced an issue of subordinated capital bonds in the amount €150 million (12 b.kr.). The bonds will be accounted for as Own Funds Part A (Tier I) under rules on additional own funds items for financial undertakings.

July 2005

On July 11, Kaupthing Bank announced that all the conditions set for Kaupthing Holdings UK's offer for the acquisition and control of Singer & Friedlander Group Plc had been fulfilled. It is subsequently intended to delist Singer & Friedlander shares from London Stock Exchange. The offer price was 316 pence per share, which is equivalent to 547 million pounds (64.6 b.kr.) for all issued share capital in Singer & Friedlander. The board of Singer & Friedlander recommended shareholders to accept the offer. Before this acquisition, Kaupthing Bank held a 19.5% share in Singer & Friedlander.

On July 12, the Central Bank announced a new currency basket following the annual revision on the basis of Iceland's foreign trade

New currency basket 2005 (%)

Based on trade in 2004

Region	Currency	Export basket	Import basket	Currency basket	Change on previous basket
USA	USD	22.03	24.02	23.03	1.19
UK	GBP	14.66	9.55	12.10	0.21
Canada	CAD	1.27	0.94	1.10	0.04
Denmark	DKK	7.67	8.59	8.13	-0.28
Norway	NOK	5.02	7.05	6.04	0.13
Sweden	SEK	2.11	5.64	3.87	0.19
Switzerland	CHF	1.50	0.92	1.21	-0.18
Euro area	EUR	42.67	39.60	41.14	-1.23
Japan	JPY	3.07	3.69	3.38	-0.07
Total		100.00	100.00	100.00	0.00
North America		23.30	24.96	24.13	1.23
Europe		73.63	71.35	72.49	-1.16
EU		67.11	63.38	65.24	-1.11
Japan		3.07	3.69	3.38	-0.07

Source: Central Bank of Iceland.

in goods and services the preceding year. The new basket took effect the same day.

On July 19, Moody's Investors Service affirmed its ratings on the Republic of Iceland at Aaa for long-term obligations and P-1 for short-term obligations, both in foreign and domestic currency, with a stable outlook.

August 2005

On August 3, Fitch Ratings, the international rating agency, affirmed the ratings of Landsbanki Íslands hf. at long-term A, short-term F1, individual C and support 2. The outlook remains stable.

On August 4, Fitch Ratings affirmed the Republic of Iceland's long-term foreign and local currency ratings at AA- and AAA respectively with a stable outlook. The short-term foreign currency rating was affirmed at F1+.

On August 5, the Treasury's 98.8% shareholding in Landssími Íslands (Iceland Telecom) was sold to Skipti ehf., an investor group comprising Exista ehf. (45%), Kaupthing Bank (30%), Lífeyrissjóður verslunarmanna (the Pension Fund of Commerce, 8.25%), Gildilífeyrissjóður pension fund (8.25%), Sameinaði lífeyrissjóðurinn pension fund (2.25%), Samvinnulífeyrissjóðurinn pension fund (2.25%), MP fjárfestingarbanki investment bank (2%) and Imis ehf. (2%). The acquisition price of 66.7 b.kr. was based on the Central Bank of Iceland's official exchange rate on July 27, 2005. It was spread between three currencies: 34,505,550,000 kr., €310,000,000 and 125,000,000 US dollars. The new owners are obliged to fulfil conditions set by the Treasury in its terms of sale. These include that no single entity or associated or related entities shall acquire a shareholding of more than 45% in Iceland Telecom until its listing on the Iceland Stock Exchange (ICEX) Main List, and that a minimum of 30% of total share capital shall be offered for sale to the public and investors no later than the end of 2007. Before that time, the company shall be listed on the ICEX Main List. After this privatisation, the state has completely withdrawn from competitive operation in the telecommunications market.

On August 12, Moody's Investor Service affirmed the ratings of Landsbanki Íslands hf. at A2 for long-term deposits, P-1 for short-term liabilities and C for financial strength. The outlook was stable.

On August 17, Lánasjóður sveitarfélaga (Municipality Credit Iceland) was licensed to operate as a credit undertaking by the Financial Supervisory Authority (FME).

September 2005

On September 6, the Treasury received a payment of 66.7 b.kr. from Skipti ehf. for its shareholding in Iceland Telecom. The 32.2 b.kr. portion paid in foreign currency will be used to prepay external debt

of the Treasury. Most of the remainder of the privatisation proceeds will be deposited in the Central Bank of Iceland and will be available over the period 2007-2010. The part of the payment rendered in Icelandic currency has been earmarked (at adjusted prices) as follows: 2007-2010: 15 b.kr. to roadbuilding; 2008-2012: 18 b.kr. towards the development of a high-technology hospital, 3 b.kr. to the purchase of a patrol vessel and aircraft for the Icelandic Coast Guard; 2.5 b.kr. towards promoting business innovation; 2.5 b.kr. to a telecommunications fund; 1 b.kr. to infrastructure investment for the mentally handicapped; and 1 b.kr. for new premises for an Institute of Icelandic Studies.

On September 8, the Central Bank announced that it will increase its regular currency purchases in the domestic interbank market on behalf of the Treasury. In light of the improved liquidity position of the Treasury, the Minister of Finance has decided to retire more of the government's foreign debt than had previously been planned. From September 12, the Bank will purchase 10 million US dollars a week in addition to the 2.5 million dollars that it has purchased weekly so far this year.