

Economic and monetary chronicle 2008

January

On January 14, the Government Debt Management Prospect for 2008 was announced. The Prospect described the proposed issue of Treasury notes with a nominal value of 47 b.kr., as well as a new benchmark series of 11-year Treasury notes. It also announced that the Treasury intended to discontinue the issuance of Treasury bills and pay up foreign debt maturing during the year.

On January 28, Moody's Investors Service issued a special comment on Iceland entitled, "Iceland's Aaa ratings are at a crossroads". The report did not announce any change in ratings on the Republic of Iceland.

On January 30, Kaupthing Bank announced that the bank and NIBC had decided to abandon Kaupthing's proposed acquisition of NIBC in view of financial market turbulence. Applications for approval by the pertinent regulatory authorities were withdrawn, and the purchase agreement was invalidated. As a result, the priority offering planned by Kaupthing for the first quarter of 2008 did not materialise.

On January 31, international rating agency Fitch Ratings affirmed Kaupthing Bank's credit rating and revised its outlook from negative to stable. The outlook for the rating had been negative since December 6. Kau

February

On February 1, the rules concerning the official customs clearance exchange rate were amended so as to base the customs price on the exchange rate registered by the Central Bank on the working day immediately preceding the customs clearance date.

On February 17, new wage settlements were signed by the national member organisations and the largest unions within the Icelandic Federation of Labour (ASÍ) and the Confederation of Icelandic Employers (SA). The wage settlements remain in effect until November 30, 2010, and are identical in their fundamentals. The negotiating parties have estimated that total costs incurred by employers will rise by just under 11% during the term of the settlement, or by an average of 3½% annually. There are three main pillars in the settlements: a "safety net" for wage developments, an increase in the lowest wage rates, and a review clause in 2009. No general wage rise is included until the final year; instead, workers are guaranteed specified wage developments during the first two years. The settlement also provided for the establishment of a Worker Rehabilitation Fund, whose function is to provide assistance and services to employees who are injured or have long-term illnesses. Further provisions include an increase in vacation days and in days of leave due to children's illnesses. The assumptions underlying the settlements are two. First, real wages in the private sector, according to the Statistics Iceland wage index, must not drop between January and December 2008. The other assumption concerns maximum inflation levels. At the beginning of February 2009, the review committee will meet in order to discuss an extension of the agreement based on the underlying assumptions. If they have held, the agreement will be extended until November 30, 2010; if not, the parties will attempt to reach a consensus on their response to the changes. If they cannot reach a consensus, the agreement will expire at the end of February 2009. In connection with the signing of the private sector wage settlements on February 17, the Government pledged to raise the tax-free income threshold in excess of price levels, reduce income-linked cutbacks of child allowances and asset-linked reductions of mortgage interest allowances, lower the corporate income tax rate from 18% to 15% beginning with the income year 2008, raise unemployment benefits in line with the rise in the lowest wage rates, and contribute one-third to the Rehabilitation Fund beginning in 2009, against matching contributions from employers and pension funds. Other pledges include raising rent subsidy allowances, increasing the number of loans pledged for subsidised residential rental housing, and increasing the amount allocated to continuing education and adult education. The Ministry of Finance estimates that the cost to the Treasury as a result of these measures will total approximately 35 b.kr. over the term of the settlement.

On February 20, an auction of a new series of Treasury notes, RIKB 19 0226, was held. The maturity date of the T-notes is in 2019. The objective was to sell notes in the series for a nominal value of 10 b.kr. A total of 76 valid offers totalling 32 b.kr. were received, and offers for 10 b.kr., with a yield of 8.9%, were accepted. Thereafter,

primary dealers were offered the opportunity to purchase an additional 10% of the nominal value of the amount sold in the auction, or 1 b.kr., at the same yield. Each primary dealer was entitled to purchase in proportion to the amount purchased in the auction, and an additional 1 b.kr. was sold as a result.

On February 22, the Financial Supervisory Authority approved the merger of the savings banks Sparisjóðurinn í Keflavík, Sparisjóður Vestfirðinga, and Sparisjóður Húnaþings og Stranda. The savings banks have merged under the name Sparisjóðurinn í Keflavík. Sparisjóðurinn í Keflavík assumed all rights and obligations of Sparisjóður Vestfirðinga and Sparisjóður Húnaþings og Stranda as of July 1, 2007.

On February 28, international credit rating agency Moody's Investor Service announced a downgrade of Kaupthing Bank, Landsbanki Íslands, and Glitnir Bank. The banks' credit ratings for long-term obligations in local and foreign currencies were downgraded from Aa3 to A1 for Kaupthing and from Aa3 to A2 for Glitnir and Landsbanki, and all three banks' financial strength ratings were lowered from C to C. The ratings for short-term obligations in local and foreign currencies remain unchanged at P-1. The outlook on all of the ratings is stable.

March

On March 5, Moody's Investor Service announced that it had changed its outlook for the Republic of Iceland's Aaa Government bond ratings and the country ceiling on foreign currency bank deposits from stable to negative. The outlook remains stable for the Aaa/P-1 long- and short-term country ceilings for bonds and notes, as well as for the Aaa local currency bank deposit ceiling.

On March 13, the second auction of RIKB 19 0226 was held. Offers were accepted for 2,350 m.kr. nominal value at an average yield of 9.41%.

On March 13, Parliament approved a legislative bill amending the Social Security Act. The amendment abolished the cutbacks in pension benefits due to income earned by a pensioner's spouse, provided for a tax-free threshold for financial income and pension income, and raised the tax-free threshold for pensioners who remain employed, as well as increasing various benefit payments and allowances.

On March 18, Glitnir Bank announced a closed auction of convertible bonds in the amount of 15 b.kr. The bonds are subordinated and convert to Glitnir shares after five years. The issue is classified as Tier I capital.

On March 20, Standard & Poor's announced that it had placed Glitnir Bank hf. on credit watch with negative implications. The bank's ratings for long- and short-term obligations are now A- and A-2, respectively.

On March 25, the Board of Governors of the Central Bank of Iceland decided to raise the Bank's policy interest rate by 1.25 percentage points to 15%. Also announced were amendments to internal Central Bank rules that were drafted with the aim of facilitating financial market activity, especially transactions with Icelandic krónur.

On March 27, a special auction of Treasury note series RIKB 08 1212 was held in the nominal amount of 10 b.kr. The auction supplemented the issue announced on January 14 in the Government Debt Management Prospect for 2008. The objective of the sale was to meet the demand for short-term securities bearing a Treasury guarantee. Offers were accepted for 7.2 b.kr. nominal value.

April

On April 1, Fitch Ratings announced that it had revised the outlook for the Republic of Iceland's long-term foreign and local currency issuer default ratings from stable to negative. The long-term foreign and local currency issuer default ratings were affirmed at A+ and AA+, respectively, and the F1 rating for short-term obligations and the country ceiling of AA- were likewise affirmed.

On April 1, Fitch Ratings announced that it had placed Glitnir Bank, Kaupthing Bank and Landsbanki Íslands ratings for long- and short-term obligations and financial strength on ratings watch negative.

On April 1, Standard & Poor's announced that it had placed the Republic of Iceland's long-term ratings on credit watch with negative implications.

On April 7, the Minister of Social Affairs issued a regulation raising rent subsidy allowances effective April 1, as an element in the Government's pledges related to the contractual wage agreements signed on February 17. On April 10, the Board of Governors of the Central Bank of Iceland decided to raise the Bank's policy interest rate by 0.5 percentage points, to 15.5%.

On April 17, the third auction of RIKB 19 0226 was held. Offers were accepted for 2.9 b.kr. nominal value at an average yield of 10.64%.

On April 17, Standard

& Poor's Rating Services lowered its foreign and local-currency sovereign credit ratings on the Republic of Iceland to A and AA-, from A+ and AA, respectively. The ratings for short-term local-currency obligations (A-1+) and short-term foreign currency obligations (A-1) were affirmed. The outlook for the long-term sovereign ratings remains negative.

On April 21, Standard & Poor's lowered the long-term credit rating for Glitnir from A- to BBB+. The rating for short-term obligations was affirmed at A-2. The outlook for long-term obligations is negative.

May

On May 9, Fitch Ratings lowered its credit ratings for Kaupthing and Glitnir. The banks' ratings for long- and short-term obligations were lowered from A to A-, and from F1 to F2, respectively. The banks' individual ratings of B/C and their support ratings of 2 were unchanged. The outlook for long-term obligations is negative.

On May 13, securities lending facilities to each primary dealer in series RIKB 08 1212 and RIKB 09 0612 were increased from 5 b.kr. to 7 b.kr. nominal value in response to demand for short-term nominal Treasury notes.

On May 15, Parliament passed a law abrogating the taxation of businesses' capital gains on the sale of equity securities and transferred the administration of tax matters for large corporations to the Regional Tax Director in the Reykjavík district. Previously, it was possible to defer the payment of taxes by reinvesting in other equities within two years.

On May 16, the Central Bank announced the conclusion of bilateral currency swap agreements with the central banks of Norway, Sweden, and Denmark. The agreements are a contingency measure, and the Central Bank can draw on them at need. Each of the agreements provides access to a maximum of 500 million euros.

On May 20, Moody's Investor Service lowered the Republic of Iceland's sovereign credit rating by one notch, from Aaa to Aa1. The country ceiling for bank deposits in foreign currency was also down-graded from Aaa to Aa1. The outlook for the sovereign credit ratings was changed from negative to stable.

On May 22, the Board of Governors of the Central Bank of Iceland decided to hold the Bank's policy interest rate unchanged at 15.5%.

On May 23, new agreements were signed by the Central Bank of Iceland in connection with the issue of Government securities and market making in the secondary market. The objectives of the agreements are to maintain the Treasury's access to loan financing and to enhance price formation in the secondary market for Government securities. The agreements were concluded with seven financial institutions and remain valid for one year.

On May 27, a special auction of short-term Treasury notes was held. The series offered was RIKB 08 1212. Offers were accepted for 15 b.kr. nominal value at an average yield of 12.45%.

On May 28, Parliament approved an amendment to the Act on Electronic Registration of Title to Securities, stipulating that settlement instructions for electronic securities denominated in foreign currencies and held in a domestic securities depository shall take place through the intermediation of a securities depository that fulfils requirements comparable to those set forth in the Act on the Security of Transfer Orders in Payment Systems. The settlement system shall have ready access to the foreign currency in question.

On May 29, the fourth auction of RIKB 19 0226 was held. Offers were accepted for 6.5 b.kr. nominal value at an average yield of 9.55%.

On May 29, Parliament passed an act of law abolishing the stamp fee on a purchaser's first apartment.

On May 30, Parliament approved amendments to the Income Tax Act in accordance with Government pledges related to the signing of the private sector wage settlements in February 2008. The amendments involve raising the personal tax credit, raising the income threshold for child subsidy allowances, reducing the income-linkage of child benefits, raising the asset threshold for mortgage interest allowances, and reducing the corporate income tax rate. In addition, the exchange rate differential for legal entities' operations can be distributed over three years.

June

On June 4, the Central Bank of Iceland issued new Rules on Foreign Exchange Balance, which took effect on July 1, superseding the previous Rules no. 318/2006. The principal change is that the maximum mismatch between foreign-denominated assets and liabilities has been reduced from 30% to 10%. However, financial undertakings can apply for authorization to maintain a separate positive foreign exchange balance in order to hedge against the effects of adverse exchange rate movements on their equity ratio.

On June 19, the Government approved special measures related to the housing market and the arrangements for Housing Financing Fund (HFF) loans. The ceiling was raised from 18 m.kr. to 20 m.kr., with the maximum loan amount set at 80% of the purchase price of the property instead of the fire insurance value, as it was previously. Furthermore, two new bond series were established for the purpose of financing mortgages granted by financial institutions.

On June 19, the Government announced a supplementary issue of Treasury notes in series, RIKB 08 1212, RIKB 09 0612, and RIKB 10 0317, which will be issued on the domestic market for a total of 75 b.kr.

On June 19, the Board of Governors of the Central Bank of Iceland decided that its certificates of deposit (SI 08 0924) will be reissued upon the maturity of the CDs issued in March. The current CD issue matures in September 2008. Decisions concerning the issuance of certificates of deposit next year will be made in view of market conditions at that time.

On June 23, the Housing Financing Fund (HFF) decided, following the June 20 auction of HFF housing bonds, to lower the Fund's lending rates by 0.15 percentage points. HFF bonds with a prepayment clause now bear 5.05% interest, and bonds without a prepayment clause bear 5.55% interest.

On June 27, Kaupthing held an auction of covered bonds. The issue is intended to finance the bank's mortgage loans to individuals, and offers were accepted for 4.8 b.kr. nominal value. The weighted average yield in the auction was 5.17%, and the bank's lending rates will be based on that yield plus a premium of 0.9%. The bank's lending rates will therefore fall from 6.4% to 6.05% following of the auction.

July

On July 3, the Board of Governors of the Central Bank of Iceland decided to leave the Bank's policy interest rate unchanged at 15.5%.

September

On September 11, the Board of Governors of the Central Bank of Iceland decided to leave the Bank's policy interest rate unchanged at 15.5%.

On September 19, the Financial Supervisory Authority approved Byr Savings Bank's application to change the savings bank into a limited liability company.

On September 29, the Office of the Prime Minister announced an agreement between the Government and the largest owners of Glitnir Bank hf., following consultation with the Central Bank of Iceland and the Financial Supervisory Authority, under which the Government would contribute new share capital in the amount of 600 million euros, thereby becoming the owner of a 75% stake in Glitnir.

October

On October 6, the Financial Supervisory Authority announced its decision to stop trading temporarily with all financial instruments issued by Glitnir Bank hf., Kaupthing Bank hf., Landsbanki Íslands hf., Straumur-Burdarás Investment Bank hf., SPRON hf., and Exista hf., and traded on a regulated securities exchange.

On October 6, Parliament passed the Act on Authority for Treasury Disbursements due to Unusual Financial Market Circumstances, no. 125/2008. According to the Act, special and very unusual circumstances refers to particular financial and/or operational difficulties experienced by a financial undertaking, including the probability that it will not be able to honour its commitments vis-à-vis its customers or creditors, the likelihood that the premises for revocation of its operating license exist, or the likelihood that the undertaking cannot meet the minimum requirements for equity, and the measures adopted by the Financial Supervisory Authority are not likely to limit the damage or risk of damage to the financial markets. Under such circumstances, the Financial Supervisory Authority is authorised to adopt special measures.

On October 7, the Financial Supervisory Authority announced its decision to define short sales of shares of specified issuers as behaviour opposed to accepted market practices. From October 7, 2008, through January 16, 2009, it is prohibited to sell short shares in Glitnir Bank hf., Kaupthing Bank hf., Landsbanki Íslands hf., Straumur-Burdarás Investment Bank hf., SPRON hf., and Exista hf., that had been admitted for trading on the regulated securities exchange in Iceland, unless the seller has the securities in his custody at the time of the offer. The prohibition also includes all other financial instruments that have the same purpose and same economic exposure as the short sale of the specified shares, and to other financial instruments whose value is determined by the price of the specified shares.

On October 7, the Financial Supervisory Authority announced that it had intervened in the operations of Landsbanki Íslands hf., based on the authority contained in the Act on Authority for Treasury Disbursements due to Unusual Financial Market Circumstances, no. 125/2008. The Financial Supervisory Authority appointed a resolution committee, which assumed all of the authorisations of the Board of Directors of Landsbanki.

On October 7, the Financial Supervisory Authority announced that it had intervened in the operations of Glitnir Bank hf., based on the authority contained in the Act on Authority for Treasury Disbursements due to Unusual Financial Market Circumstances, no. 125/2008. The Financial Supervisory Authority appointed a resolution committee, which assumed all of the authorisations of the Board of Directors of Glitnir.

On October 9, the Financial Supervisory Authority announced that it had intervened in the operations of Kaupthing Bank hf., based on the authority contained in the Act on Authority for Treasury Disbursements due to Unusual Financial Market Circumstances, no. 125/2008. The Financial Supervisory Authority appointed a resolution committee, which assumed all of the authorisations of the Board of Directors of Kaupthing.

On October 9, New Landsbanki Íslands hf. commenced operations after having taken over a part of the operations of Landsbanki Íslands hf.

On October 13, the Financial Supervisory Authority granted MP Investment Bank hf. a commercial banking licence. The commercial banking licence took effect on October 10, 2008.

On October 14, the Central Bank of Iceland announced that it had drawn a total of 400 million euros on the currency swap agreements with the central banks of Denmark and Norway.

On October 14, the OMX Nordic Exchange Iceland hf. approved Landsbanki Íslands hf.'s request for the delisting of its shares. The bank's shares were removed from trading after the market closed on October 14, 2008.

On October 15, the Board of Governors of the Central Bank of Iceland decided to lower the Bank's policy interest rate by 3.5 percentage points, to 12%.

On October 15, the OMX Nordic Exchange Iceland hf. approved Glitnir Bank hf.'s October 14 request for the delisting of its shares. The bank's shares were removed from trading after the market closed on October 14, 2008.

On October 15, the Central Bank of Iceland came to an agreement with market makers in the foreign exchange market, as well as with several other financial undertakings, concerning temporary foreign exchange arrangements. Daily auctions of the euro against the króna provide an indication of the exchange rate of the króna vis-à-vis other currencies and ensures a minimum level of cross-border business activity. The exchange rate is determined by supply and demand for foreign currency, which is initially in accordance with the Central Bank's guidelines on modifications in currency outflow.

On October 15, New Glitnir Bank hf. commenced operations after having taken over a part of the operations of Glitnir Bank hf.

On October 17, a meeting of Icebank hf. shareholders approved a motion to change the name of the bank to Sparisjóðabanki Íslands hf.

On October 22, New Kaupthing Bank hf. commenced operations after having taken over a part of the operations of Kaupthing Bank hf.

On October 27, the Financial Supervisory Authority announced its opinion that, on October 6, Landsbanki Íslands hf. was unable to remit payment of deposits in specified accounts to customers requesting such payment. Therefore, by law, the Depositors' and Investors' Guarantee Fund was obligated towards the Landsbanki Íslands hf. customers who did not receive payment from their accounts. Comparable obligations developed on October 9 with respect to Kaupthing Bank hf., and on October 3 with respect to Glitnir Bank hf.

On October 28, the Board of Governors of the Central Bank of Iceland decided to raise the Bank's policy interest rate by 6 percentage points, to 18%.

Credit ratings – changes July-October 2008

Moody's credit ratings for foreign-currency obligations				
	<i>Affirmed</i>	<i>Long-term obligations</i>	<i>Short-term obligations</i>	<i>Financial strength</i>
Republic of Iceland	Oct. 8	Aa1→A1	P-1	
Housing Financing Fund	Oct. 8	Aa1→A1		
Glitnir	Sept. 30 Oct. 8	A2→Baa2 Caa1	P-1→P-2 Not-Prime	C-→D E
Kaupthing	Oct. 9	A1→Baa3	P-1→P-3	C-→D+
Landsbanki	Oct. 8	A2→Caa1	P-1→Not-Prime	C-→E

Fitch Ratings' credit ratings for foreign-currency obligations					
	<i>Affirmed</i>	<i>Long-term obligations</i>	<i>Short-term obligations</i>	<i>Individual rating</i>	<i>Support rating</i>
Republic of Iceland	Sept. 30 Oct. 9	A+→A- BBB-	F1→F2 F3		
Glitnir	Sept. 30 Oct. 7 Oct. 8	A-→BBB- B D	F2→F3 B D	B/C→F F F	2 4 5
Kaupthing	Sept. 30 Oct. 8	A-→BBB CCC	F2→F3 C	B/C→C E	2 5
Landsbanki	Sept. 30 Oct. 7 Oct. 8	A→BBB B D	F1→F3 B D	B/C→C F F	 4 5
Straumur-Burdaras Investment Bank	Sept. 30 Oct. 9	BBB-→BB+ BB-	F3→B B	C/D D	3 5

Credit ratings – changes July-October 2008

Standard & Poor's credit ratings for foreign-currency obligations

	<i>Affirmed</i>	<i>Long-term obligations</i>	<i>Short-term obligations</i>	<i>Financial strength</i>
Republic of Iceland	Sept. 29	A→A-	A-1→A-2	
	Oct. 6	BBB	A-3	
Housing Financing Fund	Sept. 29	A→A-	A-1→A-2	
	Oct. 6	BBB	A-3	
Glitnir	Sept. 29	BBB+→BBB	A-3	A-2→A-3
	Oct. 7	CCC	C	
	9. okt.	D	D	

R&I's credit rating for foreign-currency obligations

	<i>Affirmed</i>	<i>Long-term obligations</i>
Republic of Iceland	Sept. 30	AA+→AA
	Oct. 7	A+
	Oct. 9	BBB-

November

On November 5, Fitch Ratings announced that it had lowered Straumur- Burdaras Investment Bank's rating for long-term obligations from BB- to B. The individual rating was downgraded from D to D/E. The ratings for short-term obligations were affirmed at B, and the support rating at 5. The outlook for Straumur's credit ratings was negative.

On November 6, the Board of Governors of the Central Bank of

Iceland decided to leave the Bank's policy interest rate unchanged at 18%.

On November 13, Parliament approved an amendment to the Act on Financial Undertakings, authorising a trustee in bankruptcy for an undertaking undergoing insolvency proceedings or moratorium on payment to continue specified activities for which licensing is required if those activities are necessary for the administration of the estate or the protection of creditors' interests. The administrator of such operations shall be exempt from general liability for compensatory damages. Under such conditions, it is prohibited to initiate or continue legal proceedings against the financial undertaking. The provisions on the conferral and the length of moratoria on payment for these financial undertakings were expanded.

On November 13, a temporary amendment to the Acts on Unemployment Insurance and on the Wage Guarantee Fund was passed, with the intention of meeting the needs of wage-earners who must reduce their employment percentage at their employer's initiative because of the economic contraction. Furthermore, self-employed individuals were authorised, on a temporary basis, to take on occasional projects while receiving unemployment benefits.

On November 13, the resolution committee of Kaupthing Bank hf. requested of the OMX Nordic Exchange in Iceland that trading with the company's shares be halted on the Nordic market.

On November 17, Parliament passed an amendment to the Act on Smoothing of Mortgage Loans to Individuals. Payment smoothing allows the borrower to defer payment of a portion of his instalments, but for the long term, it increases costs due to interest and indexation on the deferred amount.

On November 19, the Executive Board of the International Monetary Fund approved a two-year Stand-By Arrangement for Iceland to support the country's programme to restore economic stability. According to the plan, Iceland will receive a loan of USD 2.1 billion from the IMF, and supplementary loans totalling some USD 3 bil-

lion from Denmark, Finland, Norway, Sweden, Russia, and Poland. In addition, the Faroese Government offered Icelanders a loan of approximately USD 50 million.

On November 24, the District Court of Reykjavík granted Kaupthing Bank hf. a moratorium on payment.

On November 24, the District Court of Reykjavík granted Glitnir hf. a moratorium on payment.

On November 24, Standard & Poor's lowered the Republic of Iceland's sovereign credit rating by one notch, from BBB to BBB-, due to mounting public sector debt. Iceland's transfer and convertibility assessment was lowered from A- to BBB- because of restrictions placed on the capital account and certain current account transactions in October. The outlook remained negative.

On November 25, Glitnir hf. announced that the bank's operations in New York had been sold to former employees of the bank.

On November 26, a regulation was signed, authorising the Housing Financing Fund to take over residential mortgage loans issued by financial institutions. The terms and conditions of the loans remain unchanged after the takeover.

On November 28, Parliament passed an amendment to the Act on Foreign Exchange, authorising temporary restrictions on foreign currency trading due to capital transactions. On the same day, new Central Bank Rules on Foreign Exchange took effect, placing restrictions on movement of capital between Iceland and other countries. The purpose of the Rules is to limit foreign currency outflows. Thereafter, the instructions on temporary modification of foreign currency outflow, issued in October, were revoked.

December

On December 4, the interbank currency market resumed operation. On the same day, the new Central Bank Rules on the Foreign Exchange Market took effect.

On December 4, Moody's Investors Service lowered the Republic of Iceland's foreign and local currency ratings by four notches, from A1 to Baa1. The rating for short-term obligations was downgraded by one notch, from P-1 to P-2. The outlook remained negative. At the same time, the agency reported that, with this downgrade, it had completed its review for possible downgrade announced on October 8.

On December 5, Parliament authorised the Government to conclude agreements on financial assistance from the International Monetary Fund (IMF).

On December 5, Parliament approved an amendment to the Act on Housing Affairs. According to the Act, it is now permissible to extend housing loan maturities by up to 30 years in case of financial difficulties, instead of the previous 15 years. Furthermore, the maximum loan period for Housing Financing Fund loans has been lengthened from 55 years to 70 years.

On December 6, the District Court of Reykjavík granted Landsbanki Íslands hf. a moratorium on payment.

On December 11, legislation was passed authorising a 12.5% increase in alcoholic beverage and tobacco taxes, oil and per-kilometre charges, motor vehicle taxes, and excise taxes.

On December 12, Parliament passed a law on the investigation of the prelude and causes of the collapse of Iceland's banks in 2008. Under the new Act, a special investigative committee is to seek the truth

about the prelude and causes of the banks' failure and related events. The committee is also to assess whether there have been errors or neglect in the implementation of regulatory instruments pertaining to financial activities in Iceland and supervision of those activities, and to determine who may be responsible for such errors or neglect.

On December 12, legislation on the office of the special prosecutor entered into force. The Act establishes the office of special prosecutor, whose task is to investigate suspected criminal conduct before, during and after the

events leading to the enactment of the Act on Authorisation for Treasury Disbursements due to Unusual Financial Market Circumstances, etc., and the situation that then developed on the financial market, whether such conduct relates to the activities of financial institutions, other legal entities, or individuals, and to follow the investigation with criminal action as appropriate.

On December 12, the Customs Act was amended so as to define the entire country as a single customs jurisdiction.

On December 17, the Board of Governors of the Central Bank of Iceland decided to increase the corridor between the Bank's highest and lowest interest rates. The Bank's policy interest rate was held unchanged.

On December 18, Parliament passed an amendment to the Act on Interest and Price Indexation. The amendment, which pertains to Article 6 of the Act, stipulates that penalty interest will now include a 7% premium on the interest rate on the most common short-term Central Bank loans to credit institutions. Furthermore, the Central Bank's authority to determine a different non-fulfilment surcharge has been revoked. Penalty interest rates can be expected to decline by 4% as a result of the amendment. Moreover, penalty interest will henceforth be decided on a monthly basis instead of twice a year.

On December 18, Parliament passed an amendment to the Annual Accounts Act, authorising companies to apply for permission to prepare their annual accounts for the years 2008 and 2009 in foreign currency.

On December 18, Parliament agreed to utilise the EEA Agreement's adaptation authorisations of 2007 concerning Bulgarian and Rumanian citizens' access to the Icelandic labour market until January 1, 2012.

On December 18, a mission from the IMF concluded a four-day visit to Iceland. The purpose of the mission's visit was to assess the status and outlook for the Icelandic economy. The visit was in connection with the Stand-By Arrangement approved for Iceland by the Executive Board of the Fund on November 19. The mission met with Government officials, members of Parliament, and various other stakeholders.

On December 19, the Landsbanki Íslands resolution committee announced that Kepler Capital Markets had been sold to Kepler management and employees.

On December 20, Parliament passed legislation on fiscal measures. The individual tax rate was raised from 22.75% to 24.1% and the maximum local tax rate from 13.03% to 13.28%. Parish fees, sea

man's credits, maximum childbirth leave, child subsidy allowances, and payments under agricultural products agreements were reduced from previous amounts, and the Government's costs for pension insurance and residence for the elderly were cut by increasing the weight of investment income in the calculation of benefits and the individual's participation in these expenses.

On December 22, Parliament passed an amendment to the Pension Fund Act, liberalising the provisions authorising withdrawal of private pension savings, abolishing the maximum age to receive pension income, and expanding pension funds' authorisations to purchase unlisted securities.

On December 22, the supplementary budget for 2008 was approved by Parliament. The budgetary supplement assumes a deficit of 6 b.kr., while the original budget allowed for a 39 b.kr. surplus.

On December 22, the fiscal budget for 2009 was approved by Parliament. Revenues are expected to drop by 19.5% at constant price levels relative to the budgetary supplement for 2008, while expenditures are projected to rise by 10.5%. Most revenue items decline substantially due to the economic contraction, and the increase in expenditures at constant price levels is primarily due to interest expense. Expenditures exclusive of interest rise by 0 – 0.5% in real terms.

On December 29, the Minister of Social Affairs and Social Security issued a regulation raising allowance payments, subsidies, and the tax-free income threshold for the year 2009, with the increase totalling 9.6%. The minimum maintenance stipend for pensioners rose by 20%.

On December 31, the Ministry of Finance announced that the tax rate for income tax and local tax combined would be 37.2% for 2009, instead of 35.72% in 2008. The personal deduction was increased by 24% and the tax-free income threshold by 19%. The average local tax rate increased from 12.97% to 13.1%, and the income tax rate rose from 22.75% to 24.1%.